SOLVENCY AND FINANCIAL CONDITION REPORT

VITALITY HEALTH LIMITED

FOR THE YEAR ENDING

30 JUNE 2016

CHANGING HEALTH INSURANCE FOR GOOD

Vitality HEALTH INSURANCE

DEFINITIONS

Solvency II “SII”

30 June 2016 “the reporting date”

Year to 30 June 2016 “the reporting period”

Year to 30 June 2015 “the prior period”. No comparatives will be provided for the prior period SII numbers as the Company was not subject to SII reporting as at 30 June 2015 and is also not required to perform day one reporting.

Vitality Health Limited “the Company”

The brand of Vitality selling Health policies “VitalityHealth”

The brand of Vitality selling Life policies “VitalityLife”

Discovery Group Europe Limited and subsidiaries “the Group”

Discovery Ltd Group “the Discovery Ltd Group”

The PRA Rulebook for Solvency II firms as at the reporting date “the Rulebook”

Directive 2009/138/EC of the European Parliament and of the Council “the SII Directive”

Commission Delegated Regulation (EU) 2015/35 “the Delegated Regulation”

The Directive, the Delegated Regulation and the Technical Standards combined “the SII Requirements”

Regular Supervisory Report “RSR” – this is the RSR as at 30 June 2016

Solvency and Financial Condition Report “SFCR” or “the report” – this is the SFCR as at 30 June 2016

Quantitative Reporting Template “QRT”

Quantitative Reporting Template S.02.01 “the SII Balance Sheet”

Referencing a QRT cell – [S.XX.XX.XX.R0XXX.C0XXX] - e.g. [S.02.01.02.R0200.C0010]

Own Risk and Solvency Assessment “ORSA” – this is the ORSA as at 30 June 2016

Solvency Capital Requirement “SCR”

Basic Solvency Capital Requirement “BSCR”

Minimum Capital Requirement “MCR”

DEFINITIONS

Technical Provisions “TP”

Claims Technical Provision “CTP”

Premium Technical Provision “PTP”

Expected Profits Included In Future Premiums “EPIFP”

Risk Margin “RM”

Own Funds “OF”

International Financial Reporting Standards “IFRS”

IFRS Statement of Comprehensive Income “SOCI” or “the IFRS P&L”

IFRS Statement of Financial Position “SOFP” or “the IFRS Balance Sheet”

Actuarial Function Report “AFR”

Prudential Regulation Authority “PRA”

Private Medical Insurance “PMI”

CONTENTS

SUMMARY

1 BUSINESS AND PERFORMANCE SUMMARY

VitalityHealth is the UK's fourth largest private medical insurer, and is part of the Discovery Group, one of the leading providers of insurance solutions in the world, operating in 14 global markets, and impacting 6.9 million lives worldwide.

At the centre of the VitalityHealth business is a core purpose to make people healthier and enhance and protect their lives. This is delivered through a proprietary Shared Value Insurance model. Recognising that in modern society health risk is primarily driven by lifestyle behaviours, Vitality believes that through incentivising healthier behaviours from its members, and providing them with the tools to make positive changes in their lives, it can deliver value on multiple fronts. As an insurer, Vitality benefits from reduced claims from a healthier member base; Vitality members benefit from improved health, access to a wide range of partners and rewards, and potentially lower premiums; while society benefits from a reduced healthcare burden on the state, as well as a more healthy and productive population.

VitalityHealth delivers Shared Value by helping members to understand their health, making it cheaper and easier to get healthy, and rewarding them for making healthy lifestyle choices. The model is underpinned by significant actuarial, behavioural and clinical science, which informs the product and member approach. A key part of this is the provision of discounted access to a broad network of health and wellness partners, which includes prominent brands such as Virgin Active, Garmin, British Airways and Sweatshop, as well as incentives that reward members for engaging in health-enhancing activities.

In early 2015, Vitality further enhanced its proposition through its new Active Rewards programme, which has now become an established pillar of the Vitality model. Active Rewards links short-term activity goals to weekly rewards, incentivising members to get active through free Starbucks drinks and cinema tickets. The behavioural impact of Active Rewards has been unprecedented, with an 8-fold increase in the number of members reaching their weekly activity targets since its introduction.

Something which Vitality prides itself on as a business is that it is always looking to innovate in terms of its approach. In order to ensure that its model remains relevant, and backed up by the latest research on health and wellbeing, Vitality has for the last four years been running, in partnership with University of Cambridge and Rand Europe, Britain's Healthiest Workplace, a study on the drivers and impacts of ill-health on the UK workforce. Since inception in 2013, 400 organisations and approximately 100,000 individuals have taken part, making this the largest and most comprehensive study of workplace health in the UK.

Vitality continues to invest in growing its brand in the UK through sponsorship, advertising and PR. Through sponsorship, the Vitality brand is aligned with a broad portfolio of elite teams and benefits from promotion nationally through sport; including Premier League football, national rugby Union, England cricket and England netball. In addition mass participation events including the Vitality Run Series, RSPCA Big Walkies with Vitality and the recently launched VitalityMove promote the benefits of activity to consumers, members and intermediaries across the UK.

The Everyday Athlete campaign has provided a unifying brand idea, launched ahead of the Olympics and continuing to build momentum through our channels. Everyday Athlete articulates that health can be inclusive and accessible, and that simple everyday activity at home and at work, can contribute to significant improvements in people's long-term health, as well as their short-term physical and mental wellbeing. National TV, press and outdoor Everyday Athlete campaigns have successfully promoted the Vitality brand, established its positioning in the market and contributed to acquisition and retention efforts.

Vitality has also extended its Ambassador portfolio, securing partnerships with two new brand Ambassadors, Joe Root and Maro Itoje, who join current Ambassadors Jessica Ennis-Hill and Jonny Wilkinson. Vitality Ambassadors continue to exemplify the benefits of a healthy lifestyle, authentically encourage the involvement of others and create more strength of differentiation from the brand strategies of our competitors.

During the year to 30 June 2015 the migration of business underwritten by Vitality Health Insurance Limited to the Company was completed[1]. This was a very important step in moving to one platform which will help us to continue to dazzle our clients with the service we offer them. Throughout the year to 30 June 2016, this has reduced the administrative burden.

The Discovery Group has a value equivalent to a FTSE 100 company and on 10 November 2014 Discovery Group Europe Limited purchased the remaining 25% share of the holding company of VitalityHealth which led to a rebranding of the entities that carried the Prudential name to that of Vitality.

The Company has performed strongly in the period, writing profitable business illustrated by the low claims loss ratio of 69.9% (2015: 70.2%)[2]. Sales increased in the year, with Gross Written Premiums increasing by 5% between 2015 and 2016, showing that the rebranding exercise has been a success and that customers understand the benefit of the Vitality offering.

The Company's products are all underpinned by Vitality. Vitality is an incentive program where customers earn points for undertaking healthy activities such as visiting the gym, giving up smoking, making healthy nutritional choices and undertaking health screenings. The accumulation of points achieves a Vitality status from Bronze through to Silver, Gold and Platinum. Each status delivers increased rewards including potential lower premiums (dependent on claims experience).

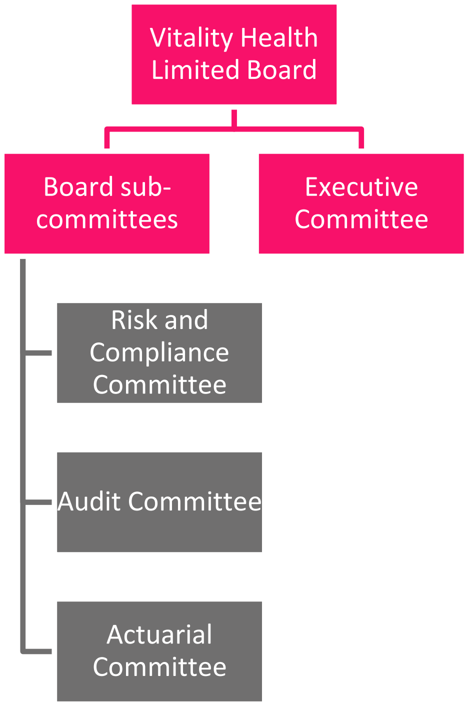
The Company's product range covers a range of benefit choices and is available in the individual market, SME market and large corporate market.

2 SYSTEM OF GOVERNANCE SUMMARY

The core purpose of the Company is to make people healthier and to enhance and protect their lives. The Company has a unique entrepreneurial spirit with a strong emphasis on innovation. The Board of Directors (Board) has the responsibility to preserve these special attributes, while at the same time ensuring that the principles of sound uncompromising good governance are observed. The Company recognises the importance of strong corporate governance and has established a well-defined governance framework, system of control and committee structure.

[1] See section A.1.7
[2] See section A.2 for the calculation of claims loss ratio

Overview of the Board and sub-committees



The Company employs a 'three lines of defence' governance model that aims to ensure that risk management is effective, appropriate decisions are made and best practice is implemented and maintained.

The 1st Line of Defence – Business Management

Business management makes up the first line of defence. Overall, the first line of defence is responsible for the day to day management of risk and control within the business operations as well as delivering the strategy and optimising business performance within an agreed governance and risk framework.

The 2nd Line of Defence – Oversight

The second line of defence functions comprise of the risk management function and the compliance function. These are independent functions that provide limited assurance to the Board with regards to the adequacy and effectiveness of the overall risk management system. These functions have the authority to communicate with any employee and obtain timely access to any records required to carry out its responsibilities.

The 3rd Line of Defence – Assurance

The third line of defence comprises of the Company's independent assurance functions, i.e. internal and external audit, that provide an independent and balanced view of the effectiveness of the first and second line functions as defined above.

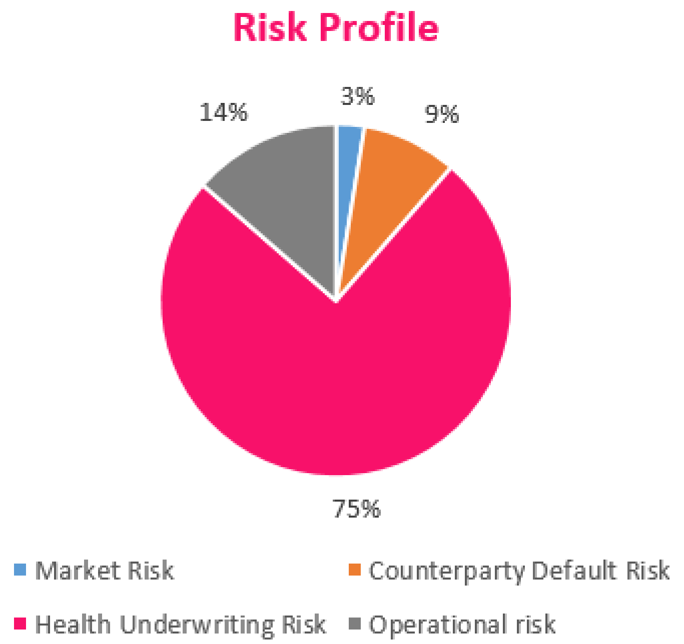
The governance structure of VitalityHealth has not changed materially in the year to 30 June 2016. Changes in the directors of the business are outlined in section B.1.2. Ultimate responsibility for the performance and strategy of the Company resides with the Board of Directors and they delegate authority within the organisation as they see fit. The Board sub-committees include the Risk and Compliance Committee, Audit Committee, Actuarial Committee and the Executive Committee whose roles are described in section B.1.1.

3 RISK PROFILE SUMMARY

The Company's principle activity is the provision and administration of private medical insurance (PMI), supported by the Vitality rewards programme.

The Company's product range covers a range of benefit choices and is available in the individual market, small and medium size enterprise (SME) market and the large corporate market.

The following chart shows the relative composition of the standard formula risk capital components at the valuation date:



The risk profile of the Company has not changed materially over the past 12 months. Health underwriting risk represents the biggest risk run by the Company, followed by operational risk.

Health underwriting risk refers to the risk that the premiums earned are not adequate to cover the claims, expense and profit margin. It also includes the risk that the reserves held for past claims are not adequate to cover the ultimate claims that emerge when settled. This risk is managed by a number of approaches including underwriting at the point of sale and claim, claims risk management and the use of reinsurance.

Operational risk is the risk of loss arising from inadequate or failed internal processes, people, systems and/or external events. The Company operates an Enterprise Risk Management framework that sets out how all risks are identified, analysed, measured, reported and monitored.

The Company does not have a significant exposure to market risks as it writes annually renewable business with a short claims tail and therefore maintains a liquid portfolio of assets.

4 VALUATION FOR SOLVENCY PURPOSES SUMMARY

An analysis of the valuation of assets and liabilities per the Solvency II balance sheet [S.02.01.02.C0010] is provided in the report in sections D.1 and D.3 respectively. The sections provide details of the recognition and valuation basis applied, including inputs and methods used, as well as judgments made and any assumptions, including those about the future and other sources of estimation uncertainty. Comparisons to the prior period are not provided as the Solvency II regime only came in to force on 1 January 2016, after the end of the prior period. Comparisons are made between IFRS and SII valuations as at the reporting date, with the main differences in receivables and reinsurance payables.

Section D.2 discloses the value of technical provisions for the sole line of business, medical expenses insurance, including the amount of the best estimate and the risk margin, as well as a description of the bases, methods and main assumptions used for its valuation for solvency purposes. An analysis of the uncertainties associated with the value of technical provisions is provided for each material assumption made in the technical provisions. A comparison between the IFRS and SII valuation methods is described in section D.2.3.

5 CAPITAL MANAGEMENT SUMMARY

The SCR coverage ratio at 30 June 2016 was 140.0%, with eligible own funds of £115,846k and a SCR of £82,769k.

The MCR coverage ratio at 30 June 2016 was 449.0%, with eligible own funds of £92,900k and a MCR of £20,692k.

The Company has complied continuously with both the MCR and the SCR throughout the reporting period.

The objective of the Company's capital management strategy is to maintain sufficient own funds to cover the SCR and MCR with an appropriate buffer. The Company carries out a regular review of the solvency ratio as part of the risk monitoring and capital management system.

A BUSINESS AND PERFORMANCE

A.1 BUSINESS

A.1.1 Name and legal form of the undertaking

Vitality Health Limited ("the Company") is incorporated in the United Kingdom and is a company limited by shares. The address of the registered office is:

3 More London Riverside
London
SE1 2AQ

This Solvency and Financial Conduct Report (SFCR) covers Vitality Health Limited (VHL, "the Company") on a solo basis.

A.1.2 Name of the Supervisory Authority responsible for the financial supervision of the undertaking and group

The Company is an undertaking of:

a. Discovery Group Europe Limited, the ultimate insurance holding company which has its head office in an EEA State, the United Kingdom; and
b. Discovery Limited, the ultimate insurance holding company which does not have its head office in an EEA State, the Republic of South Africa.

Under Solvency II, the group supervisor of Discovery Limited is the PRA as the Republic of South Africa is not an equivalent country for Solvency II group supervision purposes. In the absence of equivalence, Discovery Limited is subject to full Solvency II group supervision or the Company can apply to the PRA to use another method. On 23 December 2015, the Company obtained a waiver, effective 1 January 2016, from the PRA modifying the PRA Rulebook on Group Supervision to use another method. This method requires that the Company must provide certain information to the PRA including the following information sent to the South African Financial Services Board prepared using the South African Solvency Assessment and Management regime basis:

a. Discovery Limited group solvency quantitative reporting templates;
b. At least annually, the Discovery Limited Group Own Risk and Solvency Assessment Report, or equivalent document, and a supporting note summarising the areas that focus upon Discovery Group Europe Limited and its subsidiaries; and
c. At least annually, the Discovery Limited group annual report and, if not included in that report, a supporting note detailing the governance measures applicable to the group.

Discovery Limited is also subject to group supervision by the South African Financial Services Board. The South African Financial Services Board can be contacted at:

Financial Services Board
P.O. Box 35655
Menlo Park
Pretoria
South Africa

0102

The supervisory authority of the Company and the Discovery Group Europe Limited group, is the Prudential Regulation Authority (PRA) and they can be contacted at:

Prudential Regulation Authority
Bank of England
Threadneedle Street
London
EC2R 8AH

A.1.3 Name and contact details of the external auditor of the undertaking

The independent auditors of the Company are:

PricewaterhouseCoopersLLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

A.1.4 Holders of qualifying holdings in the undertaking

The persons, to the knowledge of the Company, who were direct and indirect holders of qualifying holdings in the Company at any time during the reporting period and at the end of the financial year were:

a. Vitality Health Insurance Limited - a limited company incorporated in the United Kingdom. As at the reporting date, Vitality Health Insurance Limited owned 100% of the shares of the Company and was able to exercise 100% of the voting power at any general meeting.
b. Discovery Holdings Europe Limited - a limited company incorporated in the United Kingdom. As at the reporting date, Discovery Holdings Europe Limited owned 100% of the shares of Vitality Health Insurance Limited.
c. Discovery Group Europe Limited - a limited company incorporated in the United Kingdom. As at the reporting date, Discovery Group Europe Limited owned 98.9% of the shares of Discovery Holdings Europe Limited. However, 100% of Discovery Holdings Europe Limited was consolidated at the Discovery Group Europe Limited group level and the Discovery Limited group level as a result of the nature of the 1.1% of shares owned by other parties.
d. Discovery Limited - a limited company incorporated in the Republic of South Africa. As at the reporting date, Discovery Limited owned 100% of the shares of Discovery Group Europe Limited, and was able to exercise 100% of the voting power at any general meeting.

A.1.5 Details of the undertaking's position within the legal structure of the group

The Company is an EEA insurance subsidiary undertaking of Discovery Limited, the ultimate world-wide parent undertaking and Discovery Group Europe Limited, the ultimate EEA parent undertaking. The participating undertaking of the Company is Vitality Health Insurance Limited. A list of related undertakings within the Discovery Group Europe Limited group is listed below.

NAME OF RELATED UNDERTAKING	LEGAL FORM	COUNTRY	PARTICIPATING UNDERTAKING	PROPORTION OF OWNERSHIP INTEREST HELD BY THE PARTICIPATING UNDERTAKING	PROPORTION OF VOTING RIGHTS HELD BY THE PARTICIPATING UNDERTAKING
Discovery Limited	Limited by shares	South Africa			
Discovery Group Europe Limited	Limited by shares	United Kingdom	Discovery Limited	100%	100%
Discovery Offshore Holdings No.2 Limited	Limited by shares	United Kingdom	Discovery Group Europe Limited	100%	100%
Discovery Holdings Europe Limited	Limited by shares	United Kingdom	Discovery Group Europe Limited	98.9%	98.9%
Health Protect Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%	100%
KYS Paid Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%	100%
Insure Your Health Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%	100%
Vitality Life Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%	100%
Vitality Corporate Services Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%	100%
Vitality Health Insurance Limited	Limited by shares	United Kingdom	Discovery Holdings Europe Limited	100%	100%
Healthcode Limited	Limited by shares	United Kingdom	Vitality Health Insurance Limited	20%	20%
Vitality Health Limited	Limited by shares	United Kingdom	Vitality Health Insurance Limited	100%	100%
Healthcare Purchasing Alliance Limited	Limited by shares	United Kingdom	Vitality Corporate Services Limited	50%	50%

The group structure chart below explains the ownership and legal links between the Company, its ultimate EEA parent undertaking, Discovery Group Europe Limited, ultimate parent undertaking, Discovery Limited and its related undertakings.

See summarised group structure:

SII Summary Group Structure Showing Control

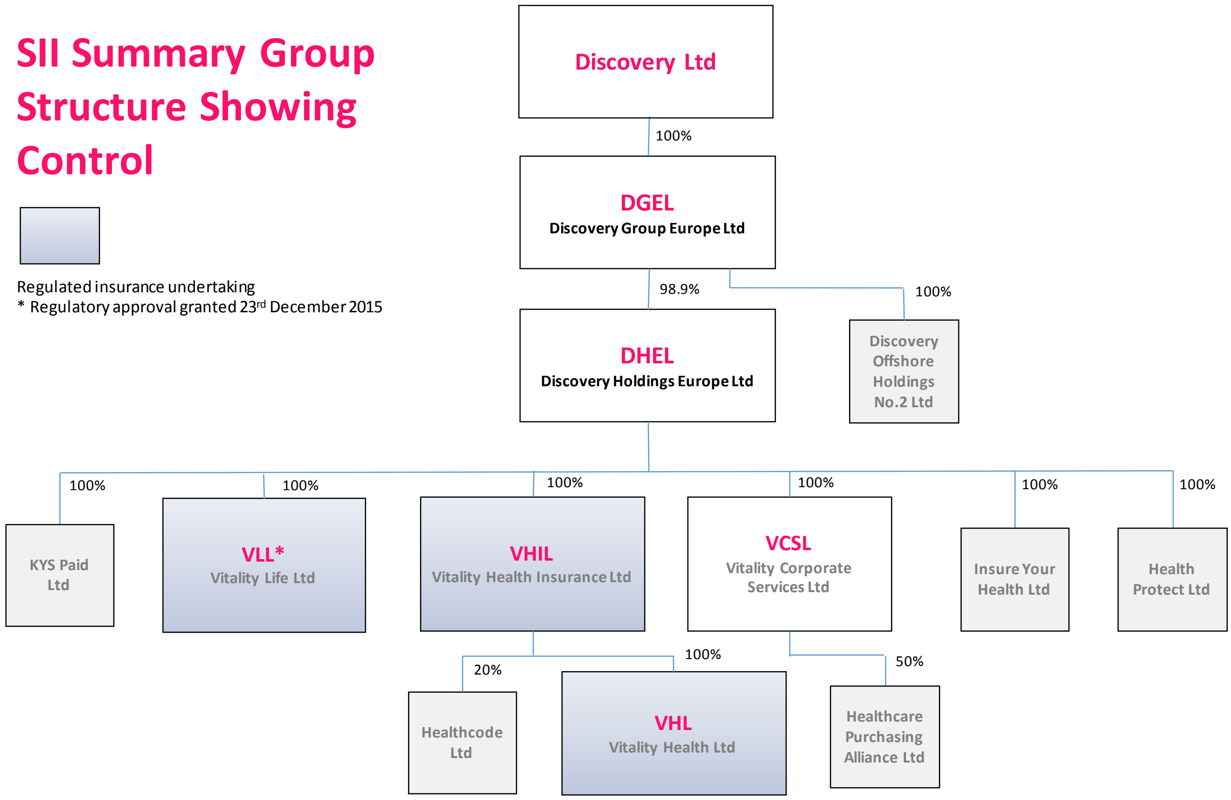


Figure 1

Discovery Limited is the ultimate parent company, incorporated in the Republic of South Africa.

DGEL is the topmost European entity and is a holdings company for DHEL and also owns a dormant company called Discovery Offshore Holdings No.2 Limited.

DHEL, the holdings company, owns three regulated insurance entities (VHL, VLL and VHIL). It also owns a services company (“VCSL”), a distributor (Insure Your Health Limited (“IYH”) which is an appointed representative of VCSL), a dormant company Health Protect Limited (“HPL”) and a leads generating business called KYS Paid Limited (“KYS”).

DHEL itself is not a regulated insurance entity, and thus has no capital requirement. VCSL, IYHL and KYS similarly have no insurance capital requirements, although as VCSL is an intermediary it requires small amounts of net assets to be held.

Healthcode Limited is a joint venture of which VHIL owns 20%. It is not a regulated insurance entity, and thus has no capital requirement.

VCSL owns 50% of Healthcare Purchasing Alliance Limited (“HPA”), which is a joint venture between Vitality Health and Aviva Health. It is not a regulated insurance entity and thus has no capital requirements.

VCSL provides a number of services to both VitalityHealth and VitalityLife including;

- Paying for the cost of the Vitality programmes and other administration costs which are then recharged;
- Holding all employment contracts and managing the payroll; and
- The administration of trust PMI schemes.

A.1.6 The undertaking's material lines of business and material geographical areas where it carries out business

The Company only has one line of business, that is medical expense insurance, and all business is transacted in the United Kingdom.

A.1.7 Any significant business or other events that have occurred over the reporting period that have had a material impact on the undertaking

There were no distributions to shareholders in the reporting period.

There were 811,500 ordinary shares of £1 each issued in the year, all shares issued were purchased by Vitality Health Insurance Limited and carried a share premium of £99.

A significant event that impacted the Company was the prior period migration of policies to the Company as the primary insurance entity in the UK group. Since 1 October 2013, upon renewal, all insurance business underwritten by Vitality Health Insurance Limited began to be migrated to the Company. This migration was completed in the year ended 30 June 2015. Vitality Health Insurance Limited now has no active insurance policies. This has not changed the nature of the risks that the Company faces, but instead has changed the quantum of those risks - the business that has migrated across is the same class of business and geographical region as business underwritten previously by the Company, that being medical expense insurance transacted in the United Kingdom, the difference is the increase in the number of lives insured.

The implementation of Solvency II with effect from 1 January 2016 is a material business event. Solvency II introduces a new, harmonised EU-wide insurance regulatory regime and in particular prescribes new capital requirements and asset and liability valuation standards for assessing regulatory solvency amongst other organisational requirements. As the Company is authorised as an insurance undertaking in the EU, it falls into scope of the Solvency II regime. The impacts of Solvency II are further detailed throughout this document.

A major event occurred in the prior period, which still impacted the business in the reporting period. On 10 November 2014 there was a change of ownership, with Discovery Group Europe Limited purchasing the remaining 25% share of Discovery Holdings Europe Limited. Following this the entities which formerly held the Prudential name were rebranded to the group shown in the structure chart (Figure 1) and summarised as follows (Figure 2):

NAME PRIOR TO 14 NOVEMBER 2014:	NEW NAME (AS OF 14 NOVEMBER 2014)
Prudential Health Limited (PHL)	Vitality Health Limited (VHL)
Prudential Health Insurance Limited (PHIL)	Vitality Health Insurance Limited (VHIL)
Prudential Health Services Limited (PHSL)	Vitality Corporate Services Limited (VCSL)
Prudential Health Holdings Limited (PHHL)	Discovery Holdings Europe Limited (DHEL)

Figure 2

On 23 June 2016 the United Kingdom European membership referendum resulted in a vote for the United Kingdom to leave the European Union. As the Company only sells and underwrites policies to UK residents the impact of the referendum is not expected to significantly impact the Company. However, given the uncertainty the referendum result is likely to bring to the UK economy the Company will continue to monitor the impact carefully.

A.2 UNDERWRITING PERFORMANCE

The following table summarises the underwriting performance of the Company:

	FOR THE YEAR TO 30 JUNE 2016 (£'000)	FOR THE YEAR TO 30 JUNE 2015 (£'000)
Gross Written Premiums	407,912	389,750
Earned Premiums	398,321	325,693
Net Earned Premiums	303,758	261,704
Claims Incurred	278,457	228,745
Net Claims Incurred	195,807	166,805
Claims Loss Ratio	69.9%	70.2%

All premiums and claims above relate to policies underwritten in the UK.

The gross written premiums, as disclosed in [S.05.01.02.R0110.C0010], increased by 5% over the prior period. This is the result of higher volumes of new business in the current period. The migration of policies from Vitality Health Insurance Limited did not contribute to the increase in gross written premiums, because the migration began before 1 July 2015 and so Vitality Health Insurance Limited recognised no gross written premiums in the year to 30 June 2015.

The Company experienced growth in earned premiums of 22% over the prior period. This is primarily due to the migration of policies on renewal from Vitality Health Insurance Limited to the Company. While Vitality Health Insurance Limited recognised no gross written premium in the year to 30 June 2015, earned premium was still recognised in the prior period in respect of policies not yet migrated to the Company. The year to 30 June 2016 was the first period in which the Company recognised the full earned premium in respect of the migrated policies. The Company is the primary insurance underwriting entity in the VitalityHealth group.

Claims incurred on the single line of business also increased by 22% over the prior period, in line with the growth in earned premium.

The claims loss ratio is a good indication of underwriting performance and whether the Company is writing profitable business. The claims loss ratio is the ratio of claims incurred as a proportion of earned premiums. The claims loss ratio was 70.2% in the prior period and 69.9% in the reporting period.

A.3 INVESTMENT PERFORMANCE

A.3.1 Information on income and expenses arising from investments by asset class

The interest and gains on assets are included below for each asset class disclosed on the Statement of Financial Position in the Company's financial statements. The asset classes disclosed in the financial statements on which an investment return is generated are 'financial assets at fair value through profit and loss' and 'cash and cash equivalents'. The financial statement line item cash and cash equivalents includes deposits, cash and cash equivalents and collective investment undertakings, as these are highly liquid investments. There are no gains or losses recognised directly in equity and no investments in securitisations.

There are no material expenses in relation to cash and cash equivalents. The only fees incurred are on investments in financial assets at fair value through profit and loss.

FINANCIAL STATEMENT ASSET CLASS	GAINS / INCOME ON INVESTMENTS IN THE YEAR TO 30 JUNE 2016 (£'000)	GAINS / INCOME ON INVESTMENTS IN THE YEAR TO 30 JUNE 2015 (£'000)
Financial assets at fair value through profit and loss	452	453
Cash and cash equivalents	1,946	924

FINANCIAL STATEMENT ASSET CLASS	EXPENSES ON INVESTMENTS IN THE YEAR TO 30 JUNE 2016 (£)	EXPENSES ON INVESTMENTS IN THE YEAR TO 30 JUNE 2015 (£)
Financial assets at fair value through profit and loss	44	39
Cash and cash equivalents	0	0

A.4 PERFORMANCE OF OTHER ACTIVITIES

A.4.1 Other material income and expenses

The other material income and expenses of the Company are shown in the following table.

	FOR THE YEAR TO 30 JUNE 2016 (£'000)	FOR THE YEAR TO 30 JUNE 2015 (£'000)
Finance Costs	(956)	(774)
Reinsurance Income	32,000	17,500

A.4.1.1 Finance Costs

Finance costs were £956k in the reporting period. The majority of this balance is the interest on the subordinated loan between the Company and Vitality Health Insurance Limited. In the prior year the finance costs were £774k.

A.4.1.2 Reinsurance

Financing reinsurance is an important part of the Company's funding strategy. Financing is obtained to partially offset the upfront cost of writing new business, and this financing is then repaid in future periods through ceded premiums and claims under a quota share treaty. The amount of financing received in the reporting period was £32,000k (2015: £17,500k). This balance is accounted for as a reduction in acquisition expenses.

During the reporting period and remaining effective as at the reporting date, the Company was party to a number of reinsurance quota share agreements. As a result of the migration of insurance policies from Vitality Health Insurance Limited to the Company, the Company has become party to two further quota share agreements which attach to those policies and their subsequent renewals. These agreements are all financing in nature, effectively creating income to the Company at the start of the agreement which is then repaid via ceded premiums and claims over the duration of the agreement.

A.5 BUSINESS AND PERFORMANCE – ANY OTHER INFORMATION

No other information.

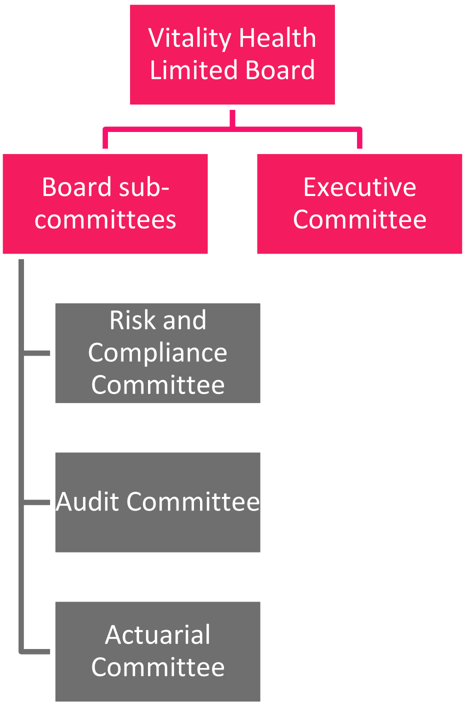
B SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

B.1.1 Role and responsibilities of the Administrative, management or supervisory body and key functions

The core purpose of the Company is to make people healthier and to enhance and protect their lives. The Company has a unique entrepreneurial spirit with a strong emphasis on innovation. The Board of Directors (Board) has the responsibility to preserve these special attributes, while at the same time ensuring that the principles of sound uncompromising good governance are observed.

Overview of the Board and sub-committees



The Board

The Board is ultimately responsible for the performance and strategy of the Company. By selectively delegating authority and certain functions to various committees, the Board does not absolve themselves of their own responsibility for the Company.

It is the Board's responsibility to ensure that:
The Company operates within an established framework of an effective system of internal control, risk management and compliance;

- Ensure that the solvency capital requirements and minimum capital requirements are maintained at all times;
- Validating that the Standard Formula is appropriate for the Company and the output from it is used effectively;
- Ensure that the values of the company are established and known throughout the Company;
- Determine the strategy and approve the business plan;
- To ensure that the business is conducted in an efficient and effective manner; and
- Assist approved persons to discharge their responsibilities in respect of the area of business for which they are responsible.

Board Committees

Risk and Compliance Committee

The Risk and Compliance Committee is responsible for assisting the Board with the overall system of risk and compliance management, ensuring that risk and compliance matters are disclosed in a timely manner, including conduct risks, business continuity and disaster and IT Governance Framework.

The Committee consists of a minimum of three highly skilled and experienced independent Non-Executive Directors and eleven members of senior management. Only the independent Non-Executive Directors can vote on matters with a quorum of two needed for approvals and decisions. The attendees of the Committee collectively have extensive actuarial, insurance, healthcare, regulatory, economics, accounting and management skills.

The Committee meets four times a year with the mandate to convene additional meetings as circumstances require. The Chairperson of the Committee is an independent Non-Executive Director who has a position on the Board and reports at each Board meeting on the activities of the Committee. The Chairperson of the Committee regularly meets with the Heads of Risk and Compliance without members of management present.

The responsibilities of the Risk and Compliance Committee are:

- Ensure that independent, effective and sufficiently resourced Risk Management and Compliance Functions are established and that these functions operate effectively as the second line of defence.
- Review and assess the adequacy and effectiveness of the risk and compliance management systems across the Company.
- Review and recommend the approval of the risk management, compliance and governance policies across the Company.
- Determine the likelihood and impact of risk that the Company is prepared to accept. This includes primary responsibility for recommending risk appetites.
- Formulate risk management strategies for the business.
- Review Capital and Solvency matters.
- Communicating the aggregate risk position and capital adequacy position to the Board, and supporting communication with external stakeholders, including the Prudential Regulation Authority (“PRA”), Financial Conduct Authority (“FCA”) and shareholders.

Audit Committee

The Audit Committee is responsible for assisting the Board in terms of the financial reporting processes, internal controls, performance of the internal and external audit processes and any other matters that may impact the financial results of the Company.

The Committee consists of a minimum of three highly skilled and experienced independent Non-Executive Directors and eleven members of senior management. Only the independent Non-Executive Directors can vote on matters and a quorum of two is needed for approvals and decisions. The attendees of the Committee collectively have extensive actuarial, insurance, healthcare, regulatory, economics, accounting and management skills.

The Committee meets four times a year with the mandate to convene additional meetings as circumstances require. The Chairperson of the Committee is an independent Non-Executive Director who has a position on the Board and reports at each Board meeting on the activities of the Committee. The Chairperson of the Committee regularly meets with the Heads of Risk and Compliance without members of management present.

The responsibilities of the Audit Committee are:

- Review of financial statements and make recommendations to the Board.
- Review any significant matters raised by the internal and external auditors.

- Review the accounting policies.
- Review the effectiveness and appropriateness of the system of internal financial controls.
- Review the scope of work (risk analysis and audit plan) of the external and internal auditors.
- Review the effectiveness and economic service of external and internal auditors.
- Escalate issues where appropriate to the Board.

Actuarial Committee

The Actuarial Committee assists the Board with actuarial matters.

The Committee consists of two independent Non-Executive Directors and an independent actuary. Executive and senior management attend the Committee by invitation and it is chaired by an independent Non-Executive Director with extensive actuarial experience in management and consulting. The Chairperson of the Committee is an independent Non-Executive Director who has a position on the Board and reports at each Board meeting on the activities of the Committee.

The responsibilities of the Actuarial Committee are:

- Ensure that all relevant actuarial risks within the Company are identified and analysed.
- Consider the financial soundness of valuation results including the overall methodology and assumptions used to value the assets and liabilities of the Company.
- To give the Board, Audit Committee and Risk Committee comfort that the contents and recommendations of any reporting to the Board on actuarial matters relating to Vitality Health have been properly considered;
- To support the Risk Committee by reviewing the methodologies and assumptions underlying the quantitative elements of the ORSA and in such other ways as requested to assist the Risk Committee in its identification, appraisal and management of risk;
- Consider the capital position of the Company.
- To make recommendations to the Discovery Limited Actuarial Committee on the embedded value assumptions and methodologies.
- Review new product profitability and pricing adequacy.
- To report to the Board annually on the effectiveness of the actuarial function of Vitality Health.
- Review reinsurance arrangements.

Executive Committee

The Executive Committee is mandated and responsible for implementing the strategies approved by the Board and managing the affairs of the company. The Executive Committee is chaired by the Chief Executive Officer and meets weekly, the CEO is a member of the Board and has a standing agenda item on the Board to provide an update of the business performance and outlook. Each area of the business is represented by an executive on the Executive Committee and feedback on the activities of each department is provided at the weekly Executive Committee meeting.

The responsibilities of the Executive Committee include:

- Implement and monitor the business plan.
- Review business plans and recommend changes for approval by the Board.
- Structure the operations to maximise efficiency.
- Ensure that effective systems of controls are established and maintained which facilitates identification and effective management of all significant risks facing the business.
- Decide upon priorities for allocating capital and operating resources within the current business plan.
- Ensure the functional areas provide accurate and timely management information to enable the business to be effectively managed.
- Pass relevant and specific information to the Board, including any recommendations by the Executive Committee that require approval by the Board.

- Review financial and operational performance of the business and authorise appropriate actions.
- Review compliance, risk and internal audit reports to ensure that ownership is allocated and appropriate corrective action is taken.
- Ensure that any significant breaches or failings are dealt with in accordance with the rules of the relevant regulatory body.
- Consider whether the actions taken will damage the reputation of the group.
- Delegate authority to sub-committees of the Executive Committee and to review the decisions and recommendations of such sub-committees.

General information on the key functions

The following section provides a summary of the authority, resources and operational independence of the key functions.

- Risk function - the risk function is headed by the Chief Risk Officer who is supported by a team that possesses skills ranging from risk management, actuarial, information technology, sales, UK regulatory environment etc. The Chief Risk Officer report including the risk summary is presented to the Executive Committee, Risk Committee and the Board, giving these management bodies the information gathered through the risk management process. The risk function maintains independence by carrying out an oversight role in the major processes, allowing for robust challenge of decisions and processes across the business.
- Internal audit function – the function is headed by the Internal Audit Director who is supported by a consultancy firm that has access to a wide range of skills. The internal audit function maintains independence as the officers that conduct the audit work are from an external organization which gives them a strong level of independence. Further information on the independence is provided in section B.5.2. The findings of the internal audit function are reported to the Audit Committee and a summary is provided to the board by the chair of the Audit Committee.
- Compliance function – the compliance function is headed up by the Compliance Director who is supported by a team with skills that include, UK regulatory environment, financial crime, data protection, monitoring, compliance etc. More information on the implementation, authority and independence is provided in section B.4.2. The findings of the compliance function are reported to the Executive Committee, Risk Committee and Audit Committee. The chairs of the Risk and Audit Committees are members of the board and present summaries of the activities of their committees to the board.
- Actuarial function – the actuarial function is headed by the Chief Actuary, information on the authority, resources and independence of the actuarial function is provided in section B.6. The Chief Actuary is a member of the Executive Committee. Activities of the actuarial function are tabled at the Actuarial Committee which is chaired by an independent Non-Executive Director who subsequently provides a summary of the committees activities to the board.

The system of governance is considered to be appropriate for the Company, taking into account the nature, scale and complexity of the risks inherent in the business.

B.1.2 Material changes in the system of governance that have taken place over the reporting period

The following Director resignations took place in the period:

- Herschel Mayers, 4 December 2015
- Stuart Sinclair, 25 May 2016

The following Director appointments took place in the period:

- Steve Sarjant, 22 September 2015.

The following changes were made to Committees in the last year:

- Steve Sarjant who brings a wealth of actuarial experience was appointed as the Chair of the Actuarial Committee, he is also an independent Non-Executive Director of the Company.
- Following Stuart Sinclair's departure, Rosemary Hilary was appointed as an independent Non-Executive Director of the Company and Chair of the Risk Committee on 4 October 2016.

The following changes were made in positions of significant influence over the last year:

- Kevin Gillett, the former Chief Operating Officer left the business.
- Keith Klintworth was appointed as the Deputy CEO.

B.1.3 Remuneration policy for the administrative, management or supervisory body and employees

B.1.3.1 Principles of the remuneration policy

The Company's remuneration policy is intended to recruit and retain employees whose values are aligned to our culture and core purpose. We aim to create an environment that motivates high performance so that all employees can positively contribute to our strategy and values. Our philosophy is to balance a flexible approach that recognises differences in individual performance, value and contribution to the organisation.

We achieve this through a robust performance management practice, which ensures equitable and competitively benchmarked pay levels with incentives geared to agreed performance outcomes, where appropriate.

The key principles that underpin our reward policy, rewards structures and individual rewards are:

- We offer pay packages that are competitive in the market to attract and retain the right people.
- Pay for performance is at the heart of our remuneration philosophy – exceptional performance is recognised and rewarded.
- We are non-discriminatory – all remuneration policies and practices are free from unfair discrimination based on race, gender, age, religion, marital status and ethnic or social origin.
- Our short-term incentive schemes are designed to encourage, recognise and reward performance and allow sufficient flexibility to respond to different business needs.
- Individual performance appraisals identify talent at all levels in the business and enable fair and competitive pay.
- The corporate bonus pot does not focus solely on sales results to the extent that management is unduly influenced in their decision making.
- Corporate performance scorecards are reviewed each year by Compliance to ensure that they remain balanced and appropriate.
- Pay designs comply with all tax and regulatory requirements.
- We believe in pay that is right and fair – we conduct regular internal and external surveys to ensure fairness and consistency across the business.Our long term incentive schemes create a sense of ownership in the Company.
- All remuneration decisions are governed by the Internal Remuneration Committee, and all senior management remuneration decisions are subject to further governance executed by the External Remuneration Committee.

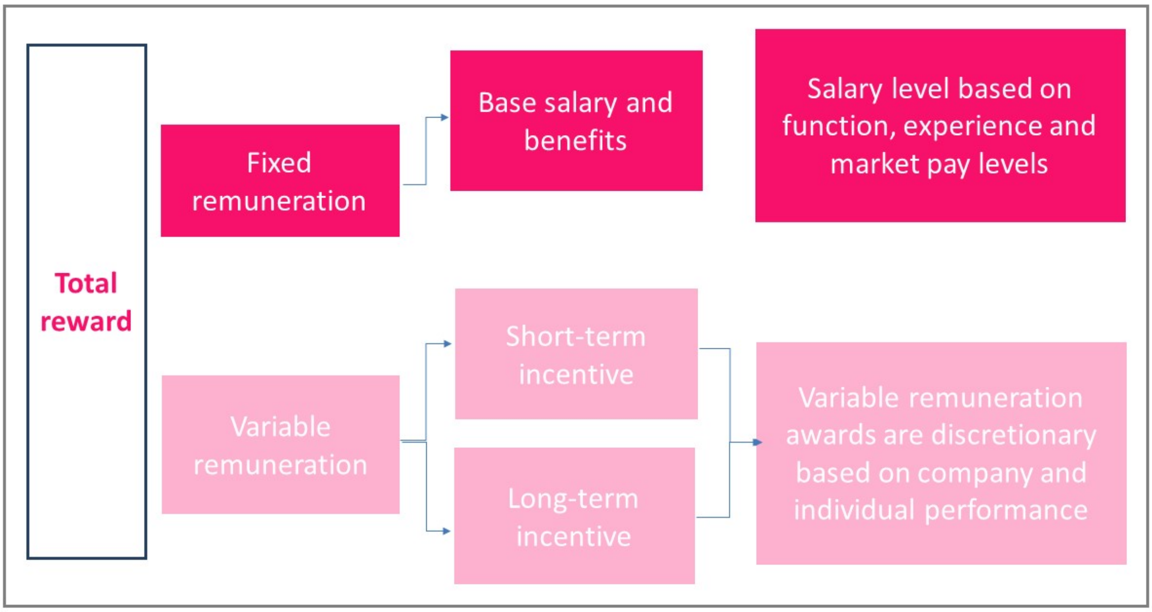
The variable remuneration potential for senior staff with the highest risk taking capacity is limited within the range 20% to 50% of basic salary, this measure is in place to promote sound and effective risk management and not to promote excessive risk taking.

B.1.3.2 Share options, shares or variable components of remuneration

The Company's remuneration policy is intended to recruit and retain employees whose values are aligned to our culture and core purpose. We aim to create an environment that motivates high performance so that all employees can positively contribute to our strategy and values. Our policy is designed to align with our ambitions of:

- Attracting, retaining and motivating high calibre employees;
- Encouraging and rewarding employees to achieve or exceed business objectives;
- Aligning the economic interest of employees with those of shareholders; and
- Providing an environment that encourages innovative thinking and extraordinary performance.

The following diagram shows the composition of our total rewards offering. The elements of this diagram are explained in the sections that follow.



Fixed remuneration

This is the core element of remuneration that gives the Executive Management and individuals who are considered to be in significant influence functions, or those deemed to have a material impact on the strategy or the risk profile of the Company, the security of regular payments in order to manage and plan their financial affairs. The flexible and compulsory benefits are designed to provide non-monetary items in a cost effective way by utilising the Company's economies of scale.

It is the Company's policy to pay a market rate comparable to similar roles within the Private Medical Insurance and Financial Services industry.

It is the Company's policy to provide a wide range of flexible benefits within the context of individual choice, the flexible benefit scheme is the same for all employees and executives take part with no special arrangements being made.

Variable remuneration – short term incentive

The short term incentive is in the form of a biannual bonus payment. The bonus is designed to reward and incentivise those who have achieved pre-determines individual and collective business targets over the preceding six month period. It is designed to encourage a performance culture aligned to our values. The bonus creates a clear link between performance and reward where good results are recognised and retention of high achievers enabled.

The amount of bonus allocation and pay-out varies depending on the seniority of the individual within the Company and is agreed contractually with each individual, including executives and Directors.

The collective criteria used to determine the level of bonus is determined using key performance indicators (both financial and non-financial) in the form of a scorecard.

Variable remuneration – long term incentive plan ('LTIP')

The purpose of the LTIP is to incentivise members of the Executive Committee and key individuals to deliver improvements in performance, by aligning their interests with the longer term strategic goals of the Company.

The LTIPs are for executive Directors, senior management and key individuals. The LTIP remuneration is based on the growth in the value of the business which is measured using the embedded value.

B.1.3.3 Supplementary pension or early retirement schemes for the members of the administrative, management or supervisory body and other key function holders

The Company offers all staff the choice of making contributions into a defined contribution pension scheme, which the company will match up to a limit.

The Company has no defined benefit pension liabilities.

B.1.4 Material transactions during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body.

The following material transactions took place in the last financial year:

- The Company transferred Rand 265m (£12m) to Vitality Health Insurance Limited ("VHIL") in order to reduce the currency risk exposure, the funds were then transferred to Vitality Life Limited which has Rand denominated expenses and there is therefore reduced currency risk in the Company.
- VHIL injected £87.9m of ordinary share capital into the Company. The capital injections were carried out in a number of tranches for two reasons;

    a. Solvency capital purposes; and
    b. All insured lives were migrated from Vitality Health Insurance Limited onto the Company, therefore the capital was transferred to the Company where the insured lives are covered.

B.2 FIT AND PROPER REQUIREMENTS

B.2.1 Requirements for skills, knowledge and expertise

The Company ensures that all persons (Solvency II staff) who effectively run the Company or have other key functions are fit to provide sound and prudent management through their professional qualifications, knowledge and experience and are proper by being of good repute and integrity.

The Solvency II staff collectively possess professional qualifications, experience and knowledge about at least:

- Insurance and financial markets;
- Information technology and project management;
- Business strategy and business model;
- System of governance;
- Financial and actuarial analysis;
- Risk management; and
- Regulatory framework and requirements.

B.2.2 Fitness and propriety of persons

In order to ensure that Senior Managers / Company Directors of the Company are fit, they are recruited giving due regard to interview requirements, referencing, relevant skills, personal and professional background and other checks as required and relevant to the role to be undertaken. Some of the general checks conducted include:

- Educational Background Check
- Professional Qualifications / Membership Check

In order to ensure that Senior Managers / Company Directors are proper, they are subjected to a variety of checks at the commencement of their assessment, including:

- Credit checks ✔
- Identity checks (including passport) ✔
- Financial Sanctions & Anti-money Laundering check ✔
- FCA Register Search
- UK Directorship Search ✔
- Five Years Employments History (including gap activity over 30 days)
- International Adverse Media Check
- Social Media Checks
- Criminal History Checks
- Standard Disclosure Checks ✔

Note that the checks with a ✔ next to them are carried out annually.

B.3 RISK MANAGEMENT SYSTEM INCLUDING THE OWN RISK AND SOLVENCY ASSESSMENT

B.3.1 Risk management system

The Company uses the Standard Formula without Undertaking-Specific Parameters to assess the solvency capital requirements and the partial or full internal model is not used.

The Company is aligned with the Group's risk management system. The Group's risk management system is articulated in a number of policies and frameworks, overarched by the Enterprise Risk Management Framework.

The Company has developed a comprehensive set of risk policies, frameworks and guidelines to ensure that adequate process and procedures are in place to manage all types of risk. These documents are aligned with the current regulatory requirements under the Solvency II regime and adopted by the PRA and FCA.

The Group adopts the 'three lines of defence' governance model:

The 1st Line of Defence – Business Management

Business management makes up the first line of defence. Overall, the first line of defence is responsible for the day to day management of risk and control within the business operations as well as delivering the strategy and optimising business performance within an agreed governance and risk framework.

The 2nd Line of Defence – Oversight

The second line of defence functions comprise of the risk management function and the compliance function. These are independent functions that provide limited assurance to the Board with regards to the adequacy and effectiveness of the overall risk management system. These functions have the authority to communicate with any employee and obtain timely access to any records required to carry out its responsibilities.

The 3rd Line of Defence – Assurance

The third line of defence comprises of the Company's independent assurance functions, i.e. internal and external audit, that provide an independent and balanced view of the effectiveness of the first and second line functions as defined above.

The risk management process requirements, as specified in the ERM framework are defined in the following table:

REQUIREMENT	DESCRIPTION
Risk Assessments	The first line is responsible for carrying out the risk assessment process; to identify, measure, monitor, manage and report. However oversight and challenge is provided by the second line in doing so. This process involves reviewing the Risk Taxonomy and identifying the risks that each department is exposed to, rating the risks and recording the controls used to manage / mitigate those risks. Once the risks, controls along with their ratings and action plans are complete, the top risks are presented to Executive Committee for review and discussion. This includes both the Bottom Up and Top Down risk assessment. Following the Executive Committee review, the risk assessments are presented to the Risk Committee.

Strategic Risk Assessments	The Chief Risk Officer is responsible for holding a workshop with the Executive Committee at least annually to identify the top strategic risks facing the business. The risk function will then work with the first line to document the issues underlying the risks identified and agree action plans. This set of risks will be monitored and reported to the Risk Committee over the year and the list of risks continuously reviewed.
Independent Risk Assurance Reviews	Independent risk assurance reviews are performed when there is a specific need to obtain an in-depth understanding of a particular risk, including the controls, actions and mitigation strategies in place. A review may be initiated by the business or CRO.
Emerging Risk Assessments	The risk function is responsible for carrying out an emerging risk assessment which is presented to the Risk Committee.

The Risk Function produces the Chief Risk Officer report every quarter, in line with the Risk and Audit Committee meeting cycle. This report is designed to provide the Board, Risk and Audit Committees with sufficient oversight of the ERM framework and risk exposures, focusing on the out of appetite and watch-list risks.

The output of these exercises in the year are also captured in the ORSA report which is owned by the Board and reviewed by the Risk Committee and the quantitative elements also reviewed by the Actuarial Committee. The ORSA is reviewed and approved at least annually by the Board.

The ORSA process is conducted throughout the year to facilitate integration with decision making, culminating in the annual ORSA report which is owned and shaped by the Board. The Risk Function coordinates the relevant processes with subject matter experts across the business and pulls it together for consumption by the Executive Committee, Risk Committee and the Board at various points in the year. A full review of the Company's own solvency assessment given the risk profile is performed and compared to the regulatory solvency assessment in order to determine whether additional solvency cover is required. The outcome of this assessment is recorded in the ORSA report and shared with the regulator.

B.3.2 Implementation of Risk management system

The activity comprising the risk management system as described in the previous section is carried out by the 1st line of defence within the Company, with the Risk Function reviewing and challenging the output.

The Board is responsible for all key decisions across the organisation but delegates some of its decision making responsibilities to the Executive Committee, Risk Committee and Audit Committee. The output of risk management system is reviewed by the Executive and Risk Committees with a summary of key items taken to the Board. This is taken to the decision making committees by the Risk Function following their review. This process facilitates the integration of the risk management system in the decision making process.

All key decisions made in the Company such as product initiatives, capital management, reinsurance arrangement review, investment strategy, marketing strategy, distribution strategy etc. follow internal governance processes which include an assessment of the risk exposure and mitigation strategies.

B.4 INTERNAL CONTROL SYSTEM

B.4.1 Internal control system

The Company maintains an internal control system that governs financial and regulatory reporting in the Company. This framework aims to ensure that:

- All the risks that pertain to the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework have been identified and documented.
- There are controls (manual and automated) in place to address these risks and they are adequately designed to prevent or detect material misstatements in the financial statements and disclosures.
- The controls identified operate as they are supposed to and are appropriately evidenced.

The financial control framework is subject to annual review of the appropriateness and effectiveness of the controls. This review is conducted by the Internal Audit function and the results submitted to the Audit Committee.

The IFRS financial statements are also subject to rigorous controls in the production and review leading up to publishing, including oversight by the Audit Committee. The actuarial liabilities are produced using best practice actuarial practices that are subject to review by the Risk function and the Actuarial Committee. The statements are also subject to internal review and external audit review. They are presented to the Audit Committee and Board for sign-off prior to publishing.

B.4.2 Implementation of the compliance function

The Compliance Function is established as an independent second line control function:

- It has a formal status within the overall governance framework of the UK Group;
- The Compliance Director is not engaged in any other business of the UK Group which could create a conflict of interest; and
- The Compliance Function has access to all information and staff necessary to carry out its responsibilities.

To provide for the independence of the Compliance Function, the Compliance Director reports to a member of the Executive Committee who is not directly involved in the day-to-day business operations and has a dotted line in to the Chair of the Risk Committee.

The Compliance Function is responsible for reporting to senior management any breaches, or non-compliance with its policy or any other relevant policy, rules and regulations. This means that the Compliance Function shall be able to carry out its functions on its own initiative without obstruction from management and other staff members.

The main Compliance activities are described in the following diagram:

Training

Ensure all staff receive regulatory training on a regular basis.

Advice and guidance

Provide guidance and support to the business in respect of regulatory requirements.

Ensure new regulatory rules are communicated to the relevant business areas and the business is ready for the changes.

Compliance monitoring

Assess the appropriateness and efficiency of controls.

Evaluate progress made with the implementation of actions.

Produce monitoring plans for sign-off by the Audit Committee.

Regulatory interaction

Manage the regulatory relationship with all applicable regulators.

Submit information to the regulators to enable them to appropriately supervise us.

Reporting

The compliance team reports regularly to the Risk and Audit Committee.

B.5 INTERNAL AUDIT FUNCTION

B.5.1 Implementation of the internal audit function

The internal audit function, headed by the Internal Audit Director is part of the 3rd line of defence in the Company.

Internal audit in the Company is implemented through the following process:

- An audit plan is created on an annual basis and ensures sufficient evidence will be obtained to evaluate the effectiveness of the risk management and control processes across the business. The plan includes a review of the major risk management processes operating across the business and a selection of the key risks identified from those processes. The audit plan also gives special consideration to those operations most affected by recent or expected changes, for example changes following acquisitions, restructures and new ventures. The proposed plan is flexible so that adjustments can be made during the year as a result of changes in management strategies, external conditions, major risk areas, or revised expectations in respect of achieving the business' objectives. Any proposed changes or update in the plan are reported to the Audit Committee for their review and agreement before they are incorporated into ongoing work. The Audit Committee review and approve the plan at least annually.
- Based on the annual plan, the internal audit activity evaluates the adequacy and effectiveness of controls encompassing the business' governance, operations, and information systems. This includes;
  - Reliability and integrity of financial and operational information.
  - Effectiveness and efficiency of operations.
  - Safeguarding of assets.
  - Compliance with laws, regulations, and contracts.
- In determining the proposed audit plan, the Internal Audit Director considers relevant work that will be performed by other areas, e.g. Compliance Assurance, External Audit. To minimise duplication of effort and inefficiencies, the work planned, or recently completed, by management in its assessments of the risk management process, controls, and quality improvement processes as well as the work planned by the external auditors are considered in determining the expected coverage of the audit plan for the coming year.
- The Executive Committee and the Board requires that the Internal Audit Director performs sufficient audit work and gathers other available information during the year so as to form a judgment regarding the adequacy and effectiveness of the risk management and control processes. The Internal Audit Director communicates overall judgment regarding the business' risk management process and system of controls to the Executive and Audit Committees.

B.5.2 Independence of the internal audit function

The internal audit function at the Company is managed by the Internal Audit Director who is an employee of the business, has no responsibility for any other function across the business and reports into the chair of the Audit Committee, which is a Non-executive Director role. This reporting structure delivers independence by the internal audit function.

The Company outsources the performance of the internal audit activity to Ernst & Young, therefore the people that carry out the reviews and report the findings are independent from the people that work in the areas under review.

A key advantage of using this model to carry out Internal Audit activity is that it gives the business a wider array of skills at its disposal to carry out audits of different parts of the business.

B.6 ACTUARIAL FUNCTION

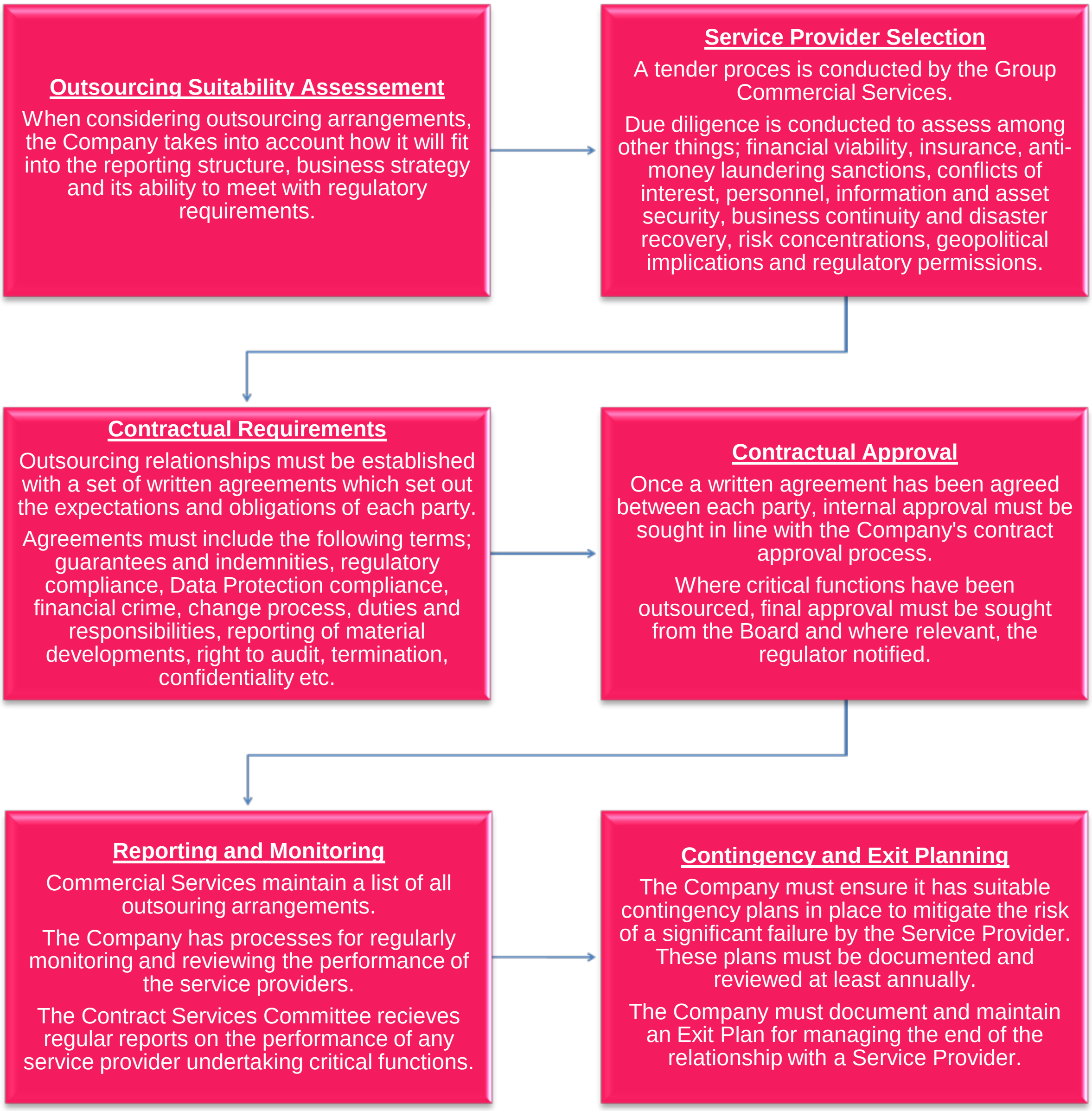
The Company provides for an Actuarial Function as required. The position of Chief Actuary (SIMF20, under the Senior Insurance Management Function 'SIMF' regime) and Chief Underwriter (SIMF22) of the Company is held by the same individual. The role holder is a Fellow of the Institute and Faculty of Actuaries, holds a relevant Practicing Certificate and has complied continuously with the specific professional obligations this requires. The role is supported by Fellows and members of the Institute and Faculty of Actuaries, international actuaries with equivalent qualifications, as well as other technical professionals. All comply continuously with their specific professional requirements. The Chief Actuary is a member of the Company's Executive Committee and has unrestricted access to the Chairman of the Actuarial Committee (who is a Non-Executive Director of the Company). For completeness and transparency, it is noted that the VitalityHealth Chief Actuary resigned after the end of the reporting period, and left VitalityHealth in October 2016. The new Chief Actuary has been appointed.

The Actuarial Function produces a written report to be submitted to the Board annually setting out the tasks that have been undertaken by the Actuarial Function and their results, and clearly identifies any deficiencies and gives recommendations on how such deficiencies should be remedied. As part of each regular monthly cycle, the Actuarial Function track the adequacy of all material recent decisions on pricing and underwriting. This provides valuable feedback on recent decisions and also allows the efficacy of these decisions to be tracked and analysed. This is conducted via a monthly review forum where key performance indicators of new and existing business are reviewed and any corrective actions agreed, where appropriate issues are escalated to the Executive Committee and Actuarial Committee. Over the course of the year to June 2016, the Actuarial Function has given significant attention to improving business mix and reducing anti-selection through pricing adjustments and expanding its toolkit for technical provisions.

B.7 OUTSOURCING

Vitality Corporate Services Limited provides management services to the Company including the recharge of expenses incurred on its behalf. All staff costs incurred by Vitality Corporate Services Limited in respect of the Company branded products are allocated and recharged to the Company. The jurisdiction is the United Kingdom.

The Company's Outsourcing Policy is to follow the process below;



The Company is currently utilising several service providers to undertake critical or important functions on its behalf. The details of these service providers, and the jurisdictions they operate in, are provided below:

DESCRIPTION OF FUNCTIONS OR ACTIVITIES	JURISDICTION
IT Outsourcing Services. This consists of desktop support, which covers support for desktop devices, telephony, mobile devices, and storage.	United Kingdom
Inbound document scanning services. Incoming mail to Vitality is scanned into Vitality systems where it is subsequently indexed/tagged.	United Kingdom
Intragoup IT and Business Processing outsourcing services to the Company. IT services include hosting services and software maintenance and support. Business services include underwriting and administration services.	South Africa
Business Process Outsourcing services including Indexing, Invoice Processing, Administrative Processing, Claims Assessment, and Intermediary Support.	India
Facilities management services. Specifically this covers reactive work orders and planned maintenance works across the Company's property estate.	United Kingdom
Provide outbound print and fulfilment services. This includes digital printing, collation, and distribution of Vitality membership and marketing materials.	United Kingdom
Provide IT Outsourcing services to the Company. These services cover day-to-day software maintenance, support, and development activities across a range of core systems.	India United Kingdom
Part managed payroll service for Vitality staff. This includes payroll set-up, payroll re-runs, additional reports, and manual payslips	United Kingdom
IT Outsourcing services to the Company. This includes managed hosting services which covers installation and management of datacentre assets.	United Kingdom
Business Processing Outsourcing services to the Company. Specifically they provide policy and claims handling for the closed Cash Plan book.	United Kingdom
Outbound print and fulfilment services. Notice has been served on this relationship. The services are currently being transitioned to Real Digital International Ltd.	United Kingdom
Internal Audit services	United Kingdom
Vitality Corporate Services Limited provides management services to the Company including the recharge of expenses incurred on its behalf. All staff costs incurred by Vitality Corporate Services Limited in respect of the Company branded products are allocated and recharged to the Company.	United Kingdom

B.8 SYSTEM AND GOVERNANCE – ANY OTHER INFORMATION

No further information.

.

C RISK PROFILE

C.1 UNDERWRITING RISK

C.1.1 Description of the measures used to assess underwriting risks

The following measures are used to assess underwriting risks:

- Experience analysis – the Company projects the expected premiums and claims that it anticipates for the year ahead, the company then tracks performance against the expected rates and reports the results to the Executive Committee. Any deviations from the expected results are identified and corrective action where necessary put in place. The options available to rectify deviations through a structured pricing strategy include changes in pricing for renewal policies or new business, adjustments to exclusions and excess amounts to control claims costs, changes in the underwriting process to improve the identification of underwriting risks and the portfolio mix at the point of sale.
- Economic capital modelling – the Company has developed a methodology of assessing underwriting risks which involves analysing any changes in the patterns of claims and premiums over time. This analysis gives an indication of a deterioration or improvement of the underwriting risk profile for the business over time.
- Reserving process – the reserving process carried out to set the claims technical provisions includes an analysis of claims settlement patterns and other known operational processes that impact the underwriting risk profile. Key areas of the business including Clinical Risk, Finance, Actuarial, Risk and Business Intelligence confer on the claims experience and whether any new information exists that should be taken into account in the process. The reserves are determined by the Chief Actuary and subject to review by the Reserving and Actuarial Committees before being approved by the Audit Committee.

Risk and control assessments – the Company has implemented an Enterprise Risk Management framework which requires all teams across the business to carry out a risk and control self-assessment which would highlight any underwriting risk issues that need to be taken into account when assessing the risk profile for the business.

- The Solvency Capital Requirement – the standard formula Solvency Capital Requirement includes an assessment and quantification of the underwriting risk exposure.

The reserving models require a steady pattern of claims settlement in order to produce reliable estimates of the amount of reserves required. The Company has undergone a significant operational process of migrating all the policies onto a single administration system over the last couple of years. This migration affected the claims settlement patterns which are an input into the reserving process. The result is that the claims technical provisions have been higher than previous years, reflecting a temporary decrease in claims settlement speeds, and increased uncertainty in the ultimate claims results for the year once the reserves run off. There were no other material changes in the underwriting risk profile within the year.

C.1.2 Description of the material underwriting risks

Underwriting risk is split into premium and reserve risk in order to distinguish between past and future claims. Premium risk results from fluctuations in the timing, frequency and severity of insured events and relates both to policies to be written during the period and to unexpired risks on existing contracts. It covers the risk that claims arising in the future may be greater than expected. Reserve risk is the risk that claims reserves may be insufficient to cover the actual cost of claims that have been incurred in the past.

As a provider of private medical insurance, these are the material underwriting risks that the Company is exposed to. There have been no changes in the period.

C.1.3 Investment assets and prudent person principle as applied to underwriting risks (as appropriate)

Not applicable to underwriting risks.

C.1.4 Risk mitigation techniques used for underwriting risks

The following list outlines the techniques used for mitigating underwriting risks in the Company:

- Underwriting at point of sale and claim – members are underwritten at policy inception and at the point of claim. The effectiveness of this technique is monitored through quality assurance activity which involves auditing the application of the underwriting practices and processes.
- Product design and pricing (e.g. exclusion, excesses etc.) – the Company reviews its experience and adjusts premiums in light of this experience in line with actuarially accepted best practice. Occasionally, the Company may adjust the product design in order to mitigate underwriting risk. The effectiveness of this technique is monitored regularly by reporting the underwriting performance results to the Executive Committee at least monthly.
- Claims risk management - high level claim trends and key performance indicators are monitored closely by the Clinical Intelligence team and reported to key areas of the Company. The effectiveness of this technique is monitored regularly by reporting the underwriting performance results to the Executive Committee at least monthly.
- Reinsurance – the company reinsures underwriting risks that are outside of appetite, currently this only applies to the travel insurance benefit. The effectiveness of this technique is reviewed annually by the actuarial function.
- VH is actively managing the portfolio mix and has a structured pricing strategy to improve the underwriting and portfolio mix.

C.1.5 Risk sensitivity for underwriting risks

The Company carries out stress and scenario testing as part of the ORSA process, this includes some risk sensitivity testing of the underwriting risks. A stress or sensitivity test is described as follows:

- **Stress Test** – A stress test is a severe change in a single risk factor or a limited number of risk factors. It is typically conducted over a short time horizon, for example an instantaneous shock.

Three stress tests were carried out with respected to underwriting risk, these are:

- A 1-in-10 year loss ratio deviation
- A 1-in-25 year loss ratio deviation
- A 1-in-200 year loss ratio deviation

These assess the impact of the material underwriting risks happening i.e. prices and reserves are inadequate. This is measured by applying a stress to the loss ratio assumptions included in the business plan. These stresses are based on an internal calibration of the loss ratio distribution at different levels of confidence.

The results of the analysis showed that, it would take more than a 1-in-25 year adverse variance on the loss ratio to breach the SCR, therefore the Company's underwriting risk profile was assessed to be resilient to withstand severe shocks and is within the Board's risk appetite.

C.2 MARKET RISK

C.2.1 Description of the measures used to assess market risks

The following measures are used to assess market risks:

- Risk and control assessments – the Enterprise Risk Management framework of the business requires all teams across the business to carry out a risk and control self-assessment which would highlight any market risk issues that need to be taken into account when assessing the risk profile for the business.
- Risk review of investment strategy – any proposals of changes to the investment strategy include a risk review. This involves a risk assessment of the proposal using metrics such as reviewing the Value at Risk of the proposed strategy.
- The Solvency Capital Requirement – the standard formula Solvency Capital Requirement includes an assessment and quantification of the market risk exposure.

C.2.2 Description of the material market risks

The Company's core business is the writing of private medical insurance contracts which are annually renewable and have a relatively short tail (with e.g. claims reserves effectively becoming negligible by c. 9 months after a given cohort of claims have been incurred). Given this short duration, a relatively conservative investment strategy is taken, with a large proportion of investments held in overnight or short-term deposits.

The Company is therefore not exposed to any material market risks.

C.2.3 Investment assets and prudent person principle as applied to market risks (as appropriate)

In relation to the prudent person principle, the assets held by the Company are compliant with the Solvency II Directive.

The assets held are appropriately understood and the associated risks have been identified, measured and taken into account in the company's overall solvency needs assessment which is documented in the ORSA report.

The assets held to meet the MCR and SCR meet the required security, quality, liquidity and availability. Details of this assessment are captured in the ORSA report.

The Company's technical provisions have a very short duration. On average, we expect 85% of the invoices originating from a treatment month to be settled within three months, 95% to be settled within six months and 99% to be settled within nine months. Therefore, as more than 90% of the assets are kept in short term cash vehicles, the duration of the assets is closely matched to the liabilities as stipulated by the Directive.

The Company does not invest in derivative vehicles for investment income purposes. The UCITS fund may use derivatives to contribute to a reduction of risks or facilitate efficient portfolio management.

All the Company's assets are held by counterparties through vehicles that are subject to a regulated financial market.

C.2.4 Concentration risk

The company's assets are held by a reasonably wide range of counterparties to control concentration risk. On the 30th June 2016, the largest concentration with one counterparty was 34% of the total holdings, this counterparty is one with an 'AA' rating by a leading credit ratings agency. Concentration risk constitutes less than 1% of the undiversified SCR, this risk was not material for the Company.

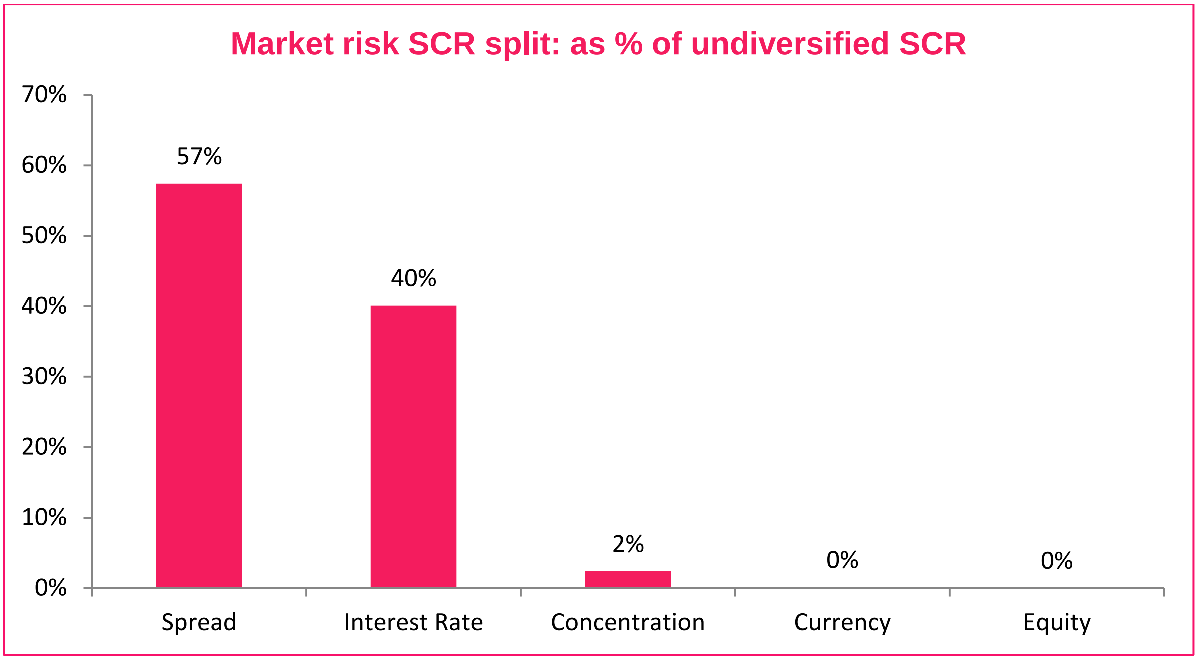
C.2.5 Risk mitigation techniques used for market risks

The Company does not participate in any speculative, arbitrage or trading activities. The Company targets a level of security, quality, profitability and availability in its investment activities:

- Security – No investment vehicle is used, which poses any material risk of the capital amount being subject to significant price volatility, significantly eroded, lost or where the ultimate loss is greater than the investment.
- Quality – The credit quality of any interest-bearing investment should be investment grade i.e. only legal entities or paper rated “BBB” or higher by Standard & Poor’s, Moody’s or Fitch credit ratings agencies.
- Profitability – Assets are only added to the portfolio when their expected return is deemed sufficient relative to the risk taken and is within risk appetite. The expected returns must be evaluated after considering any additional solvency capital required as a result associated with the investment.
- Availability – All investments are fully admissible from a regulatory capital perspective, and that the types of investments do not significantly increase the Solvency Capital Requirement or Minimum Capital Requirements obligations of the company.

C.2.6 Risk sensitivity for market risks

Given the low risk investment strategy pursued, the standard formula Solvency Capital Requirement was used for the stress testing. Market risk made up 12% of the Solvency Capital Requirement on the 30th June 2016, the following graph shows the proportional contribution of the sub-risks to the market risk module:



These stresses are calibrated at the 1-in-200 year adverse event level and shows that spread risk and interest rate risk are the two largest sub-risks. Given that the 1-in-200 year adverse level for market risk is 12% of the Solvency Capital Requirement, then a capital cover ratio in excess of 112% would withstand this level of market risk should it materialise. The Company is targeting a higher level of cover and should therefore comfortably withstand very severe market risk materialisations. This is consistent with the low risk investment strategy.

C.3 CREDIT RISK

C.3.1 Description of the measures used to assess credit risks

The following measures are used to assess credit risks:

- Risk and control assessments – the Enterprise Risk Management framework of the business requires all teams across the business to carry out a risk and control self-assessment which would highlight any credit risk issues that need to be taken into account when assessing the risk profile for the business.
- The Solvency Capital Requirement – the standard formula Solvency Capital Requirement includes an assessment and quantification of the credit risk exposure.

C.3.2 Description of the material credit risks

- The largest credit risk exposure for the Company arises from the counterparties holding the company's assets, there is a risk that they default when the company requires the funds. The Company also invests in a bond portfolio consisting of corporate bonds and gilts, this investment gives rise to more credit risk for the company.
- The Company does not provide loans on the open market or have any credit risk exposure to reinsurance counterparties.

C.3.3 Investment assets and prudent person principle as applied to credit risks (as appropriate)

Not applicable.

C.3.4 Risk mitigation techniques used for credit risks

The following list outlines the techniques used for mitigating credit risks in Vitality Health:

- The credit quality of any interest-bearing investment should be investment grade i.e. only legal entities or paper rated "BBB" or higher by leading credit ratings agencies.

C.3.5 Risk sensitivity for credit risks

Counterparty default risk made up 11% of the Solvency Capital Requirement on the 30th June 2016, the standard formula Solvency Capital Requirement was used for the stress testing.

Given that the 1-in-200 year adverse level for credit risk is 11% of the Solvency Capital Requirement, then a capital cover ratio in excess of 111% would withstand this level of credit risk should it materialise. The Company is targeting a higher level of cover and should therefore comfortably with-stand very severe credit risk materialisations.

C.4 LIQUIDITY RISK

C.4.1 Description of the measures used to assess liquidity risks

The following measures are used to assess liquidity risks:

- Risk and control assessments – the Enterprise Risk Management framework of the business requires all teams across the business to carry out a risk and control self-assessment which would highlight any liquidity risk issues that need to be taken into account when assessing the risk profile for the business.
- Pillar II risk assessment – quantitatively, a high level liquidity assessment is carried out over a one year period to assess the impact of a moderate stress event on the company's liquidity position. Qualitatively, the liquidity risk profile of the business is considered. The results of this assessment are recorded in the ORSA.

C.4.2 Description of the material liquidity risks

The Company invests all its assets in highly liquid assets and the liquidity coverage ratio (a simple quantitative metric which expresses the sum of the available liquid assets and expected inflows as a multiple of expected outflows) is used to measure liquidity risk. This is currently not a material risk for the Company.

C.4.3 Investment assets and prudent person principle as applied to liquidity risks (as appropriate)

Not applicable.

C.4.4 Risk mitigation techniques used for liquidity risks

The following list outlines the techniques used for mitigating liquidity risks:

- The Company considers the total liquidity needs in the short and medium term, including an appropriate liquidity buffer to guard against a liquidity shortfall.
- The Company monitors the level of liquid assets, including a quantification of potential costs or financial losses arising from an enforced realisation, including the identification and costs of alternative financing tools.
- The Company reviews the effect on the liquidity situation of expected new business during the business planning process.

C.4.5 Expected profit included in future premiums

The expected profit included in the future premiums is calculated as the decrease in technical provisions that would occur if it was assumed that no future premiums are received on existing contracts. This amount stood at £39.7m on the 30th June 2016.

C.4.6 Risk sensitivity for liquidity risks

A high level liquidity assessment was performed over a one-year period to assess the impact of a moderate stress event on liquidity. The stress consists of two key components:

- An investigation on the impact of a combination of a loss ratio, lapse rate and expenses stress culminating in a 1-in-25 year adverse event; and
- A 1-in-25 year adverse operational risk event.

The following table shows the impact of this stress:

	30 JUNE 2015 BASE	30 JUNE 2015 1-IN-25 STRESS
Liquidity Coverage Ratio	1.47	1.38

Liquidity Coverage Ratio is a simplified quantitative metric which expresses the sum of the available liquid assets and the present value of expected inflows as a multiple of the present value of expected outflows. It is clear from the above that the Company remains sufficiently liquid over a one-year period, even in the case of the above stress. The Company does not hold capital against liquidity risk, but uses the above analysis as well as scenario analysis to assess the impact of liquidity risk.

C.5 OPERATIONAL RISK

C.5.1 Description of the measures used to assess operational risks

The following measures are used to assess operational risks:

- Risk and control assessments – the Enterprise Risk Management framework of the business requires all teams across the business to carry out a risk and control self-assessment which would highlight any operational risk issues that need to be taken into account when assessing the risk profile for the business.
- The Solvency Capital Requirement – the standard formula Solvency Capital Requirement includes an assessment and quantification of the operational risk exposure.
- Pillar II risk assessment – the company carries out operational risk scenario workshops to develop scenarios for each operational risk category. This involves estimating the severity and likelihood of the scenario based on the information captured in the company's risk register and input from subject matter experts in the business. Once captured, the operational risk profile is assessed quantitatively and taken into account in reviewing the overall solvency needs of the business. Operational risks are also assessed using qualitative techniques to understand the likelihood and impact of the risks materialising. The results of this assessment are recorded in the ORSA.

C.5.2 Description of the material operational risks

The material operational risks that were assessed as being material over the period include:

- Cyber/ Data security - the risk of the inability to protect data from unauthorised access, use, disclosure, disruption, modification and/or destruction.
- IT Infrastructure - the risk arising from lack of effectiveness, integrity, reliability, capacity and/or availability of IT infrastructure.
- Miss-selling – the risk of deliberate, reckless or negligent sale of products or services in circumstances where the contract is either misrepresented, or the product/service is unsuitable for the customer's needs.
- Outsourcing - the risk of failure, non-performance, ineffective management and/or oversight of an outsourcing partner or a binder agreement.
- People - the risk of inadequate recruitment practices, development, management or retention of employees and/ or contractors.
- Execution, Delivery and Process Management - the risk to a business unit's service provision arising from a failure to carry out operational processes in an accurate, timely and complete manner.
- Legal - the risk of a defective transaction arising; a claim (including a defence to a claim or a counterclaim) being made; inadequate contract management or any other event occurring which results in liability for the Company.

C.5.3 Investment assets and prudent person principle as applied to operational risks (as appropriate)

Not applicable.

C.5.4 Risk mitigation techniques used for operational risks

The following list outlines the techniques used for mitigating operational risks:

- Risk reduction – where possible, the Company takes action to reduce the impact of a risk. The required actions vary by risk.
- Risk avoidance – where risks are outside risk appetite and there are no commercially viable means of reducing the risk, the business may avoid the risk.
- Risk transfer – reinsurance arrangements are an example of risk transfer as a mitigation technique.

Where the company has considered all other mitigation techniques and the risk remains out of appetite, it may proceed to accept the risk with the approval of the Risk Committee. The material operational risks which the Company is exposed to are identified and recorded in the risk register. Risks are assessed and once the actions required to manage the risks have been agreed, the risks are reported to senior management, the Risk Committee and the Board.

C.5.5 Risk sensitivity for operational risks

Operational risk made up 14% of the Solvency Capital Requirement on the 30th June 2016.

Further analysis was carried out, this involved developing operational risk scenarios calibrated at the 1-in-200 year adverse event level. This analysis revealed that the operational risk profile was 50% higher than the standard formula Solvency Capital Requirement level. The Company's Solvency Capital Requirement cover was sufficient to cover this stressed amount of operational risk over the period.

C.6 OTHER MATERIAL RISKS

C.6.1 Description of the measures used to assess other material risks

The other material risk that the Company is exposed to arises from the Vitality rewards programme.

The following measures are used to assess Vitality risk:

- Risk and control assessments – the Enterprise Risk Management framework of the business requires all teams across the business to carry out a risk and control self-assessment which would highlight any Vitality risk issues that need to be taken into account when assessing the risk profile for the business.
- The Solvency Capital Requirement – the standard formula Solvency Capital Requirement includes an assessment and quantification of the premium risk exposure which includes the cost of the Vitality rewards programme.
- Pillar II risk assessment – the company carries out risk scenario workshops to develop scenarios for key risk categories. The Vitality risk scenario developed considered the most popular benefits and the cost to the company in the event that the utilisation increases drastically. The results of this assessment are recorded in the ORSA.

C.6.2 Description of the material “other material risks”

Vitality risk is the risk that Vitality reward costs exceed those allowed for in the current budget as a result of experience variances.

C.6.3 Investment assets and prudent person principle as applied to other material risks (as appropriate)

Not applicable.

C.6.4 Risk mitigation techniques used for other material risks

The following list outlines the techniques used for mitigating Vitality risks:

- Regular monitoring and reporting of benefit utilisation, cost and status distribution
- Including sufficient flexibility in the product design – this is a key control as it gives the Company the ability to make changes to the benefits swiftly if necessary
- Scenario analysis is carried out to identify vulnerabilities
- Capital is held against this risk

C.6.5 Risk sensitivity for other material risks

The Vitality risk scenario was designed to generate the cost of providing the benefits assuming a 1-in-200 year adverse result. This resulted in a cost that is 45% higher than expected per the business plan and was included in the assessment of overall solvency needs.

C.7 RISK PROFILE – ANY OTHER INFORMATION

No other information.

D Valuation for Solvency Purposes

D.1 ASSETS

D.1.1 Solvency II valuation for each material class of asset

D.1.1.1 Deferred tax assets

The value of the deferred tax asset [S.02.01.02.R0040.C0010] is £14,366k as at the reporting date. The valuation of the deferred tax asset takes into account the reduction in the UK main corporation tax rate to 19% and 18% that will be effective from 1 April 2017 and 1 April 2020 respectively. These rate changes were substantively enacted into UK law on 26 October 2015 and are therefore recognised in the deferred tax asset as at the reporting date.

Following a management assessment of the future profitability of the Company, a deferred tax asset of £14,292k has been recognised at 30 June 2016 in respect of unutilised historical trade losses. A deferred tax asset of £74k is due to short term timing differences and is deemed immaterial for the purposes of the SFCR and therefore will not be covered below.

The valuation method taken is as prescribed in Article 15 of the Delegated Regulation. The recognition of deferred tax assets are subject to a degree of estimation and judgment. The full potential deferred tax asset that the Company could recognise from unrelieved past losses of £151,740k is £27,734k.The level of deferred tax asset recognised is with reference to the expected future taxable profits of the Company. An internal valuation model is required as there is no external valuation of deferred tax available. The Company makes use of all available evidence when determining the future taxable profits. This evidence includes medium term business plans which incorporate discounted cash flow projections of the profits that are expected to emerge from the insurance policies underwritten by the Company. Due to the level of uncertainty around the business plan in assessing the availability and quantum of future profits the Company applies probability factors to determine a range of probable outcomes. Following migration of policies from Vitality Health Insurance Limited to the Company, there is a significantly increased likelihood of future profitability, due to the profitability of the migrated policies.

There was a change in the amount of the deferred tax asset in the current year from that of the prior year ending 30 June 2015 due to the changing tax rates and a revaluation performed using updated projections of future profitability.

D.1.1.2 Bonds

As at the reporting date the Company held an investment of 10,782k in a portfolio of bonds and the fair value of the portfolio increased by £452k in the period. The portfolio is split between asset classes Corporate Bonds [S.02.01.02.R0150.C0010] and Government Bonds [S.02.01.02.R0140.C0010]. These have a balance as at the reporting date of £9,902k and £880k respectively. A balance of £41k is included in the portfolio as cash and has been disclosed separately in cash and cash equivalents [S.02.01.02.R0410.C0010] in the balance sheet. This leaves a solvency valuation of bonds [S.02.01.02.R0130.C0010] of £10,782k which differs to the financial statements as at the reporting date by the cash held in the portfolio's dealing account. The assets aggregated in lines [S.02.01.02.R0140.C0010] and [S.02.01.02.R0150.C0010] are comparable by nature, function, risk and materiality.

Investment securities are valued at fair value based on market prices at the reporting date, which are quoted prices in active markets for identical assets per Article 10(2) of the Delegated Regulation. As these are publicly traded securities, the market prices are readily available and are actively traded – details of which are provided in a statement from the investment manager. There are no material assumptions or judgments made. The criteria for assessing market activity, and therefore the ability to rely on market values, includes reviewing the names of companies that have issued the bonds, discussions with the investment manager around the availability of market prices, and reviewing the ratings of the assets. The prices do not fluctuate dramatically or move in step changes and therefore this suggests that the prices are readily available. Gains or losses arising from the sale of investments and changes in the market value of investments are included in the value of the portfolio.

There are no significant estimates used in valuing these investments due to the nature of the corporate bonds and government bonds held. These are actively traded products.

D.1.1.3 Collective Investments Undertakings

As at the reporting date, the Company had £106,040k held in collective investment undertakings [S.02.01.02.R0180.C0010]. The SII valuation is the same as the valuation method in the financial statements. The market value for each of the investments is reported by the investment managers at the end of each period. There are no significant estimates or judgments used in valuing these investments due to the nature of the collective investment undertakings held.

Collective investment undertakings are valued at fair value under Solvency II based on market prices at the reporting date, which are quoted prices in active markets for identical assets per Article 10(2) of the Delegated Regulation. As these are publicly traded securities, the market prices are readily available and are actively traded – details of which are provided in a statement from the investment manager. The criteria for assessing market activity, and therefore the ability to rely on market values, include reviewing the names of companies that have issued the securities, discussions with the investment manager around the availability of market prices, and reviewing the ratings of the assets. The prices do not fluctuate dramatically or move in step changes and therefore this suggests that the prices are readily available. Finally, the investment manager has bought and sold securities on behalf of the Company in the past without restriction and therefore this suggests there is an active market for the assets.

The assets allocated to the collective investment undertakings line [S.02.01.02.R0180.C0010] are aggregated as they are comparable by nature, function, risk and materiality.

D.1.1.4 Deposits other than cash equivalents

As at the reporting date, the Company had £13,304k held in deposits other than cash equivalents [S.02.01.02.R0200.C0010]. Deposits other than cash equivalents are valued at fair value for solvency as reported to the Company by the relevant financial institutions at the end of the period.

There are no material estimations or judgments made due to the nature of the asset. The valuation of the deposit does not rely on market prices, as these are cash deposits. The assets allocated to the deposits other than cash equivalents line [S.02.01.02.R0200.C0010] are aggregated as they are comparable by nature, function, risk and materiality.

D.1.1.5 Receivables

Receivables in the Solvency II balance sheet at the reporting date are valued at £23,737k and consists of negative reinsurance recoverable [S.02.01.02.R0300.C0010] of £4,052k, insurance and intermediaries receivable of £26,041k [S.02.01.02.R0360.C0010], reinsurance receivables of £822k [S.02.01.02.R0370.C0010] and receivables (trade, not insurance) of £926k [S.02.01.02.R0380.C0010]. Reinsurance receivables and receivables (trade, not insurance) are immaterial for analysis.

The reinsurance recoverable of negative £4,052k [S.02.01.02.R0300.C0010] consists of two elements, a liability for the reinsurance payables within the contract boundary of PTP and an asset for the reinsurance recoverables within CTP as disclosed in S.17.01.02 in R0140 and R0240 respectively. These had values of negative £16,780k in [S.17.01.02.R0140.C0020] and positive £12,728k in [S.17.01.02.R0240.C0020], giving a net negative reinsurance recoverable of £4,052k. The vast majority of the PTP reinsurance payables relate to the financial reinsurance treaties. Per Article 2.1 of the Valuation section of the PRA Rulebook for Solvency II Firms assets should be valued “at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction". As there are no quoted market prices available per Article 10(3) of the Delegated Regulation, the reinsurance recoverable balances are valued using alternative valuation methods per Article 10(5) of the Delegated Regulation. To meet the requirements of the Rulebook a discounted cash flow has been used for the valuation method using relevant market inputs per Article 10(6) of the Delegated Regulation. Since the valuation only stems to the end of the contract boundary for each contract of insurance, the impact of discounting is immaterial.

Inputs for the PTP reinsurance recoverable calculation involves identifying the element of the financial reinsurance repayments that relates to the inforce policies up to their contract boundary and therefore this valuation uses contractual repayments which are not subject to judgment.

The inputs for the CTP reinsurance recoverable are the gross technical provisions, the valuation of which is covered in section D.2.1, as the recoverable simply arises from proportional reinsurance cover.

Insurance and intermediaries receivable of £26,041k [S.02.01.02.R0360.C0010] consists of £13,200k of due premiums outstanding and £12,841k of intermediary receivables.

Due premiums outstanding of £13,200k are valued using a look through of IFRS outstanding premiums. Where outstanding premiums relate to future premium collection dates these are included in the PTP (see section D.2.1). Where the premium collection date fell before the reporting date, but the cash has not been received at the reporting date, this amount falls in due premiums outstanding. Systems reports are used as the basis of this amount, and it is further tested by taking a sample of policies. The assumptions and judgments behind the calculation are therefore limited. The amount is not discounted for Solvency II as the majority of cash receipts were received within a month of the reporting date.

The £12,841k of intermediary receivables is made up of £697k of intermediary receivables which are deemed immaterial and £12,44k of provider payments made. These are retained under a Solvency II basis as there are agreements in place that these amounts will be used to cover claims or will be paid back and therefore are valued at the amount in cash that was sent from the Company to providers. The main assumptions are that this amount is recoverable, and that the contracts could be exchanged between knowledgeable willing parties for the amount provided.

The receivables above are aggregated due to the closely linked nature, function, risk and materiality of the assets.

For the receivables in balance sheet rows R0300, R0360, R0370 and R0380 there has been no change made to the recognition and valuation bases used, valuation methods or to estimations during the reporting period.

There are not significant assumptions or judgments made about the future as all of the receivables in lines R0300, R0360, R0370 and R0380 are short term receivables and therefore no material assumptions have been made for future events.

D.1.1.6 Cash and cash equivalent

As at the reporting date, the Company had £81,108k held as cash and cash equivalents (R0410). Cash and cash equivalents are valued at fair value as reported to the Company by the relevant financial institution at the end of the period, per Article 10(2) of the Delegated Regulation.

There are no significant estimates or judgments used in valuing the cash holdings due to the nature of valuing cash held in pound sterling.

The cash holdings are instant access and the Company has had no issues withdrawing or moving money held in these accounts in the past.

The assets allocated to the cash and cash equivalents line (R0410) are aggregated as they are comparable by nature, function, risk and materiality.

There has been no change in the valuation method used during the period.

D.1.2 Differences between Solvency II valuation and local GAAP/IFRS valuation by material class of asset

D.1.2.1 Deferred tax assets

There is no difference between the recognised deferred tax asset in the financial statements and the deferred tax asset recognised in the balance sheet for solvency and therefore there are no closing procedures for providing Solvency II figures.

D.1.2.2 Bonds

The valuation according to IFRS is based on fair value through profit and loss including accrued interest and therefore the valuation is the same between IFRS and Solvency II which also values the bonds at the market value, including accrued interest. When reporting under Solvency II the bond portfolio must be split to cash and cash equivalents (R0410) for the amount of dealing cash held, to government bonds (R0140) for the amount of government bonds held and corporate bonds (R0150) for corporate bonds held.

D.1.2.3 Collective Investment Undertakings

Under IFRS collective investment undertakings are valued as loans and receivables at amortised cost which is equivalent to the fair value model used under Solvency II. In the financial statements these fall under the cash and cash equivalents financial statement line item.

D.1.2.4 Deposits other than cash equivalents

There are no differences between the Solvency II valuation and the IFRS valuation of deposits other than cash equivalents.

D.1.2.5 Receivables

The valuation of insurance and intermediaries receivable (R0360) differ under IFRS and Solvency II. Under IFRS this amount is the total of gross written premium and insurance premium tax up to the contract boundary for all policies. Under Solvency II, the future premium collections are included under PTP in technical provisions (R0560) and the actual due premiums outstanding are included in R0360 (see section D.1.1.5).

There is a difference of £18,000k in the valuation of reinsurance receivables (R0370) under IFRS and Solvency II. This difference is driven by a reinsurance receivable balance that does not meet the Solvency II recognition criteria. The financial statements value reinsurance receivables as loans and receivables and therefore value them using amortised cost. This is deemed to approximate to fair value due to the short term nature of the receivable. Therefore the Solvency II and IFRS valuation methods are the same.

The valuation of receivables (trade not insurance) (R0380) is the same between Solvency II and IFRS, the only exceptions are prepayments which do not meet the Solvency II valuation criteria in Article 2.1 of the Valuation section of the PRA Rulebook for Solvency II firms – as prepayments could not be exchanged between knowledgeable willing parties in an arm's length transaction. The financial statements value receivables (trade not insurance) as loans and receivables and therefore value them using amortised cost. This is deemed to approximate to fair value due to the short term nature of the receivable. Therefore the Solvency II and IFRS valuations are the same.

D.1.2.6 Cash and cash equivalents

There are no differences between the Solvency II valuation and the IFRS valuation of cash and cash equivalents.

D.2 TECHNICAL PROVISIONS

D.2.1 Technical provisions analysed by each material line of business

The value of the Company's technical provisions are set out in template 17.01.02 (Non-Life Technical Provisions). All liabilities are denominated in Great Britain Pounds (GBP). Supplementary information regarding delays in timing of settlement and apportionment of the claims technical provision to the most recent and prior accident years are included in template 19.01.01 (Non-Life insurance claims). The Company includes all its business under 'medical expenses insurance'. All business is direct and there is no inwards reinsurance.

The Company's technical provisions consist of the claims technical provision, the premium technical provision (which together form the best estimate liability) and the risk margin. These are set in line with the Solvency II regulations.

Claims technical provisions are determined using actuarial techniques widely used in non-life insurance businesses. These are principally a range of 'chain-ladder' techniques supplemented by additional analysis including trend analyses, and consideration of compound loss and delay distributions. These methods rely implicitly on stability in the periods between the date of medical treatment, issuance of invoices by providers, and then receipt, processing and settlement of these invoices by the Company. The methods are applied to monthly accident cohorts. Premium technical provisions are determined using a forward looking monthly projection of all in-force policies until the contract boundary, the next renewal date in all cases; mid-term cancellations are anticipated within the projection at a level in line with recent experience. Separate projections are undertaken for policies still with premiums due prior to their next renewal dates, and those that have no further premiums due. Expected medical claims arising from these policies are projected in line with recent experience. Assumptions regarding expenses related to ongoing policy administration after the point of last renewal but before the next renewal, plus all costs of claims management and invoice settlement, plus the costs relating to the Vitality wellness programme are set and monitored in the same manner throughout the year. The timing, in particular of the delays in settlement of invoices relating to medical claims are allowed for. Throughout the year, the actual experience is monitored regularly and assumptions adjusted in the event of material deviation from the expected position. Both claims and premium technical provisions are discounted using the risk free rates from the "relevant risk-free interest rate structure" published by EIOPA for the reporting date. The risk margin is set in line with the regulations and is broadly equal to seven per-cent of the SCR.

No transitional provisions have been applied to the calculation of technical provisions.

An analysis of the change in technical provisions over the reporting period has not been provided as the Company was not subject to the Solvency II regime in the prior period.

D.2.2 Uncertainty associated with the value of technical provisions

The Company has, supported by sensitivity testing, identified the period between date of medical treatment and the settlement of the related invoices together with the claims ratio the most material drivers of uncertainty in the value of technical provisions. The disclosed value of the claims technical provision is expected to lie within ten per-cent of its true value with ninety-five per-cent confidence, while ultimate claims ratios achieved are typically within two per-cent of ratios projected at the beginning of each period.

D.2.3 Differences between Solvency II valuation and local GAAP/IFRS valuation of Technical Provisions analysed by each material line of business

The underlying methodologies for the claims technical provision under Solvency II is based closely on the IFRS approach. Solvency II introduces a requirement to discount cash-flows based on their timing, while the Solvency II recognition of invoice settlement expenses allows fully for fixed and indirect costs within the technical provisions compared to IFRS where only marginal, direct costs are considered as an accounting liability. The impact of discounting on the gross claims portion is trivial while the different treatment of expenses increases overall liabilities by £1.0m. Premium technical provisions under Solvency II are not directly comparable to those recognised under IFRS. The premium technical provision is based on a probability weighted average of future cash-flows taking into account the time value of money, contrasting to IFRS where the unearned premium reserve represents the proportionate share of the premiums relating to the time remaining on each insurance contract. A quantitative analysis is not relevant, but taken together the most significant impact is recognition of expected future profits arising from the in-force book between the reporting and contract boundaries. The Company does not make any allowance for a risk margin when setting its IFRS provisions. As such the Solvency II treatment is additive in comparison.

D.2.4 Recoverables from reinsurance contracts and special purpose vehicles

The value of the recoverables are set out in template S.31.01.01 (Share of reinsurers (including Finite Reinsurance and SPV's). A small amount of basic quota share arrangements exist on a legacy part of the health insurance portfolio and are taken into account in the technical provisions. The Company's counterparties to these treaties are EU-regulated reinsurance undertakings with a credit quality step of 1. As discussed earlier, some travel insurance risks arise through 'rider' benefits on policies in the medical expenses portfolio. These typically give rise to small claims, though layers of excess of loss cover has been arranged within the London market to protect the Company in the unlikely event of a very large claim. The expected value of recoverables here are considered to be immaterial and have therefore been set to zero. The company has eight cash-based Finite Reinsurance treaties in place and one 'cashless' treaty. Under Solvency II, the financing income received from the treaties are included in the balance sheet assets while the corresponding 'deficit balance' is recognized as a liability on the balance sheet. The treaties extend past the contract boundaries of the underlying policies and consequently part of the deficit balances and recoverables are apportioned to the technical provisions with the remainder included in reinsurance payables.

D.3 OTHER LIABILITIES

D.3.1 Solvency II valuation for each material class of other liabilities

D.3.1.1 Insurance & intermediaries payables

Insurance & intermediaries payable [S.02.01.02.R0820.C0010] consists of claims outstanding and intermediaries payables and at the reporting date had a solvency valuation of £7,327k. The material portion of this balance, which will be analysed here, is the claims outstanding amount of £7,146k.

The claims outstanding amounts are valued at fair value and therefore the Solvency II valuation meets Article 10(4) of the Delegated Regulation. The claims that populate claims outstanding are system generated, where on authorisation the system includes the claim in claims outstanding. The inputs to this valuation are claims reports and approvals from employees and therefore there is not deemed to be a high level of judgment in the valuation approach. There is also little future uncertainty of the economic outflow as the amount is paid within a month of the claim being authorised and as such the liability is not discounted. From experience, when claims are paid the amount does not differ materially to the original valuation.

The liabilities allocated to the line 'Insurance & intermediaries payables' (R0820) are aggregated as they are comparable by nature, function, risk and materiality. These all relate to insurance payables based on insurance contracts with similar terms and therefore are aggregated for solvency.

D.3.1.2 Reinsurance payables

The balance owed to reinsurers at the end of the reporting period was £58,693k as shown in line 'Reinsurance payables' [S.02.01.02.R0830.C0010] in the Solvency II balance sheet. This is attributable to the contracts of financial reinsurance in force as at the reporting date, which are detailed in section A.4.1, and aggregated based on their comparable nature, function, risk and materiality. These are categorised as reinsurance payables as they are finite reinsurance per the definition of finite reinsurance in the Glossary of the PRA Rulebook for Solvency II firms. Per Article 2.1(2) of the Valuation section of the Rulebook liabilities should be valued "*at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction."* And 2.2 *"For the purposes of 2.1(2) when valuing liabilities no adjustment must be made to take account of the own credit standing of the firm*". To meet the requirements of Article 2.1(2) a discounted cashflow has been used for the valuation method using relevant market inputs per Article 10(6) of the Delegated Regulation.

The main assumptions applied when valuing the liabilities under the discounted cash flow model are that London Interbank Offer Rate (LIBOR) is the correct risk free rate to use for the calculation and that using the UK commercial bank monthly spot curve is an appropriate method of assuming future LIBOR levels. LIBOR is used as the interest rate on the financial reinsurance contracts are based on LIBOR and therefore this indicates that this is a main driver of the liability. These assumptions will be reviewed on an annual basis. The future LIBOR rates are predictions based on Bank of England published UK commercial bank monthly spot curve and although this is market data, it is a forecast which will deviate from future LIBOR rates.

The timing of the economic outflows is predictable as these are contractually based. The timeframe of the contracts extends to a final repayment date of September 2021 as at 30 June 2016. This is per the current contracts, however the contracts may be changed or renegotiated including, but not limited to, potential reinsurance recaptures. From past experience, the contractual amount of the liabilities does not deviate materially from the original valuation.

D.3.1.3 Payables (trade, not insurance)

Payables (trade, not insurance) [S.02.01.02.R0840.C0010] are valued at the fair value of the payables at the reporting date. The material items within the year-end balance of £24,714k are Insurance Premium Tax (IPT) payable and intercompany payables owed to other group companies. IPT payable is valued on the written premiums of the period up to the valuation date. This is calculated by the Company's systems and verified through separate calculations. The IPT is valued by the system using the correct rate on that policy type, therefore there is no judgement applied to this. The IPT is therefore valued at fair value, as future cash flows are used to value the IPT payable and this is in line with Article 14(1) of the Delegated Regulation.

The first intercompany payable is the fair value of costs recharged from Vitality Corporate Services Limited (VCSL). The recharges from VCSL are at the amounts invoiced to the services company – the costs are then allocated to the insurance entities in the Group. The loan is therefore valued at the fair value of the amount owed to VCSL and is therefore in line with Article 14(1) of the Delegated Regulation.

The second intercompany payable is an intercompany loan from Discovery Holdings Europe Limited which is a short term unsubordinated loan provided to the Company. This is intended to be converted to another form of capital in the near future which will then contribute to solvency. The loan is repayable on 1 July 2021, and accrues interest at a floating rate of 415 basis points above LIBOR. This is valued at fair value and in line with Article 14(1) of the Delegated Regulation.

The balances are aggregated in line R0840 as they are similar in nature, function, risk and materiality. There is not considerable estimation uncertainty, as these balances are based on historical data. The IPT balance and VCSL intercompany balance were settled shortly after the reporting date and therefore the valuation is not adjusted for uncertainty over timing. From past experience, the final settled amount of the liabilities does not deviate materially from the original valuation.

D.3.1.4 Subordinated liabilities

A long term subordinated loan has been provided to the Company by Vitality Health Insurance Limited. The loan is repayable on 31 December 2020, and accrues interest at a floating rate of 400 basis points over LIBOR.

The subordinated liabilities had a solvency valuation of £14,670k at the reporting date. Per Article 2.1(2) of the Valuation section of the Rulebook liabilities should be valued "*at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction."* And 2.2 *"For the purposes of 2.1(2) when valuing liabilities no adjustment must be made to take account of the own credit standing of the firm*". As there are no quoted market prices available per Article 10(3) of the Delegated Regulation, to meet the requirements of Article 2.1(2) a discounted cash flow has been used for the valuation method using relevant market inputs per Article 10(6) of the Delegated Regulation. No repayments are made and therefore the liability is growing with the capitalisation of accrued interest.

The main assumptions are the discount rate used and the arm's length rate of interest. The risk free rate was determined at LIBOR as interest in the loan is based on a floating LIBOR balance. The arm's length interest rate must be considered as the subordinated loan is provided by a fellow Discovery Group Europe Limited group company, Vitality Health Insurance Limited. The arm's length rate of interest is deemed to be reasonable and meet the arm's length requirement of Article 2.1(2) of the Valuation section of the Rulebook – it is equivalent to a rate for a commercial loan of the same size.

D.3.2 Differences between Solvency II valuation and local GAAP/IFRS valuation by material class of other liabilities

D.3.2.1 Insurance & intermediaries payables

There are no material differences in the solvency valuation of claims payable to the valuation approach taken in the financial statements. Under IFRS, these are valued as financial liabilities under IAS39 and recognised as other financial liabilities measured at amortised cost using the effective interest method. Therefore, the initial valuation is at fair value. This is established as the cost of settling those liabilities to the customer - the value of the cash to be paid. The financial liabilities are not subsequently revalued to amortised cost, as this is deemed to be approximately equivalent to fair value. The valuation under Solvency II and in the financial statements is therefore equivalent.

D.3.2.2 Reinsurance payables

The financial reinsurance contracts are accounted for in the statutory accounts per IFRS 4 Insurance Contracts under IFRS, with no liability recognised for the future repayments expected under the reinsurance contracts. Under Solvency II the future repayments expected under the financial reinsurance contracts are valued using a discounted cash flow and recognised as a reinsurance payable.

D.3.2.3 Payables (trade, not insurance)

The IPT payable and intercompany payables are financial liabilities for which there is no difference in the valuation under IFRS. There is therefore no difference between the valuation under Solvency II and under IFRS.

D.3.2.4 Subordinated liabilities

The valuation of the subordinated liabilities in basic own funds (R0870) is valued using a discounted cash flow and the difference is immaterial and therefore under Article 14 of the Delegated Regulation the IFRS valuation is utilised.

D.4 ALTERNATIVE METHODS OF VALUATION

There are no alternative methods of valuation used by the Company to value assets or liabilities.

D.5 VALUATION FOR SOLVENCY PURPOSES – ANY OTHER INFORMATION

D.5.1 Risk management areas

D.5.1.1 Underwriting and reserving

The Company's Underwriting Policy and Reserving Risk Policy set out the regular monthly monitoring of claims ratios, pricing adequacy and reserving adequacy. This feedback allows material deviations from expected levels to be identified, acted upon, and appropriate changes to pricing rates and provisioning assumptions to be implemented.

The Company's Data Quality Policy is implemented through a monthly data quality forum that tracks and evaluates the results of the execution of a series of data quality rules. The rules and related tolerances themselves are also reviewed on a basis no less frequent than annual.

VitalityHealth have implemented claims management procedures which are designed to cover the entire cycle of claims effectively. Key controls in place for management of claims include, but are not limited to:

a. Director-level ownership for authorisation, claims, invoicing, processing, and claims fund management
b. A dedicated invoice performance and governance team in the Deputy CEO division
c. Separate claims processing teams, mapped and sub-divided by specialist functions and expertise
d. A dedicated partnership manager for the portion of claims management which is undertaken offshore
e. Monthly oversight and scrutiny of claims performance and payments at Executive Committee and Reserving Committee meetings
f. Twice-monthly oversight and scrutiny of claims processing performance
g. Regular convening of an operational claims management forum
h. Ongoing operational oversight of operational claims management
i. Full process description and mapping of claims journeys
j. Clear routes of escalation for different types of claims

In line with the Company's Reserving Risk Policy, the expected profits included in future premiums are determined in accordance with Article 260(2) of the Delegated Regulation. The calculation is made under the assumption that in the event of a policyholder discontinuing their policy for any reason and that future premiums are not received results in the position that no future events that would otherwise be insured will be considered as liabilities.

The Company groups all of its business in a single homogenous risk group. The fundamental nature of the business is to meet the costs of medical claims, and while the business operates variants of its product across different sales channels and across both individual and group markets the underlying sickness risks are identical.

The Company uses grouped data to determine its premium technical provisions which results in loss making policies being automatically offset against profit-making policies.

D.5.1.2 Asset-liability management

See section C.2.5 for the documentation of asset and liability mismatch and the actions if this is the case. See section C.2.3 on the Company's technical provisions.

D.5.1.3 Investment risk management

The actions taken by the Company to ensure that the Company's investments comply with the prudent person principle and take in to account the nature of the Company's business, its approved risk tolerance limits, its solvency position and risk-exposure are set out in section C.2.3.

See section C.2.5 for the quality comment on investment credit rating.

Per section C.2.3 - the Company does not invest directly in derivative vehicles for investment income purposes. The UCITS fund may use derivatives to contribute to a reduction of risks or facilitate efficient portfolio management.

The investment portfolio is reviewed on a regular basis. See section C.2.4 for more details on concentration risk of the investment portfolio.

D.5.1.4 Liquidity risk management

Short term and long term liquidity risk is covered in section C.4.4. The composition of the assets and the availability of those assets to cover the Company's obligations as they fall due is covered in section C.2.3. See section C.4.1 for a description of the measures used to assess liquidity risks.

D.5.1.5 Concentration risk management

See section C.2.4 for concentration risk management.

D.5.1.6 Operational risk management

See section C.5.1 for measures used to assess operational risks.

D.5.1.7 Reinsurance and other insurance risk mitigation techniques

See section C.1.4 for the approach to reinsurance risk mitigation techniques and sections C.3.1 and C.3.2 for the analysis of credit risk in the Company.

E CAPITAL MANAGEMENT

E.1 OWN FUNDS

E.1.1 Objective, policies and processes for managing own funds

The Company's available own funds, eligible own funds and ratio of eligible own funds over SCR and MCR are disclosed in QRT S.23.01.01. The objectives of the business are to maintain sufficient own funds to cover the SCR and MCR with an appropriate buffer. These should be of sufficient quality to meet the eligibility requirements in Article 82 of the Delegated Regulation. The Company holds regular meetings of senior management, which are at least quarterly, in which the ratio of eligible own funds over SCR and MCR are reviewed. The committees that review solvency are described in more detail in section B.1.1 General Information on the System of Governance and ultimately rest with the Vitality Health Board. As part of own funds management, the Company prepares ongoing annual solvency projections and reviews the structure of own funds and future requirements. The business plan, which forms the base of the ORSA contains a five year projection of funding requirements as part of the business plan and this helps focus actions for future funding. There were no material changes in the objectives, policies and processes employed by the undertaking for managing its own funds.

The following basic own-fund items are deemed to substantially possess the characteristics set out in Article 3.5(1) and (2) of the Own Funds section of the Rulebook. Per Article 69 of the Delegated Regulation they take into consideration the features set out in Article 3.6 of the Own Funds section of the Rulebook when determining the tier of own funds in to which the basic own fund items fall.

E.1.2 Own funds classified by tiers

The Solvency II regime was not in place as at 30 June 2015 and therefore comparatives are not available and as such the movements of own fund items during the period are not available.

E.1.2.1 Tier 1 unrestricted:

Total available tier 1 unrestricted own funds (T1U) of £88,761k consists of £3,926k of ordinary share capital and £388,625k of share premium related to ordinary share capital and is reduced by £303,789k reconciliation reserve. All of these are basic own funds. These are analysed as follows:

Ordinary share capital:

There is £3,926k of called up, issued and fully paid ordinary share capital at the reporting date. This is a high quality, available, own fund item that meets the tier 1 features determining classification as specified in Article 71 of the Delegated Regulation. The ordinary share capital is available, is not subordinated in any way, and has no restricted duration. Article 71 (1)(e) of the Delegated Regulation does not apply and therefore there is no loss absorbency mechanism described here.

Share premium account related to ordinary share capital:

There is £388,625k of fully paid share premium in relation to the ordinary share capital at the reporting date. This is a high quality, available, own fund item that meets the tier 1 features determining classification as specified in Article 71 of the Delegated Regulation. The share premium related to ordinary share capital is available, is not subordinated in any way, and has no restricted duration. Article 71 (1)(e) of the Delegated Regulation does not apply and therefore there is no loss absorbency mechanism described here.

Reconciliation reserve:

The negative reconciliation reserve of £303,789k is made up of £103,128k Solvency II excess of assets over liabilities less £406,916k of other basic own fund items per Article 70 of the Delegated Regulation and the Technical Standards. Further details of the excess of assets over liabilities is provided in E.1.5. There are no foreseeable dividends or own shares held. The reconciliation reserve is available, is not subordinated, and has no restricted duration. Article 71 (1)(e) of the Delegated Regulation does not apply and therefore there is no loss absorbency mechanism described here.

E.1.2.2 Tier 2:

Subordinated liability:

Total available tier 2 own funds consists of a £14,670k subordinated liability at the reporting date. The subordinated liability is a basic own fund item subject to transitional arrangements (see section E.1.6). A long term subordinated loan has been provided to the Company by Vitality Health Insurance Limited. The loan is repayable on 31 December 2020, and accrues interest at a floating rate of 400 basis points over LIBOR. See the valuation documented in section D.3.2.4. The duration is 4.5 years following the end of the reporting period. The subordinated loan is available, fully subordinated and forms a part of basic own funds.

E.1.2.3 Tier 3:

An amount equal to the value of net deferred tax assets:

Total available tier 3 own funds consist of £14,366k net deferred tax assets at 30 June 2016. This is consistent with Articles 76 and 77 of the Delegated Regulation. The deferred tax asset will be unwound over future periods dependent on future available profits. This is deemed a basic own fund item. The amount equal to the value of net deferred tax assets is available, is subordinated to the extent that it ranks after the claims of all policyholders and beneficiaries and non-subordinated creditors, and has no restricted duration as it is based on carried forward losses that do not expire.

E.1.3 Eligible amount of own funds to cover the Solvency Capital Requirement, classified by tiers

The limits on eligible tier 3 capital per Article 82 of the Delegated Regulation are the only restrictions on available own funds to meet the SCR. Total available tier 3 own funds to meet the SCR are £14,366k. The available tier 3 own funds to meet the SCR is reduced to £12,415k due to the limit of 15% of the SCR, a reduction of £1,951k. This leaves total eligible own funds to meet the SCR of £115,846k, with each tier contributing the following: tier 1 unrestricted £88,761k; tier 2 £14,670 and tier 3 £12,415k.

The eligible own funds over SCR ratio was 140.0% as at 30 June 2016.

E.1.4 Eligible amount of own funds to cover the Minimum Capital Requirement, classified by tiers

The total available own funds to meet the MCR are £103,431k. Tier 3 own funds cannot form part of total available own funds to meet the MCR. Article 82 of the Delegated Regulation limits tier 2 items to 20% of the MCR and therefore this reduces the tier 2 own fund items by £10,531k to £4,138k. The total eligible own funds to meet the MCR are £92,900k, with each tier contributing the following: tier 1 unrestricted £88,761k and tier 2 £4,138k.

The eligible own funds over MCR ratio was 449.0% as at 30 June 2016.

E.1.5 Difference between equity as shown in the financial statements and the Solvency II value excess of assets over liabilities

Total equity per the financial statements was £178,484k as at 30 June 2016. Excess over liabilities as calculated for solvency was £103,128k. There are no differences between ordinary share capital or share premium related to ordinary share capital in the financial statements and the amount reported in basic own funds. The difference of £75,356k between the net assets of the Company in the financial statements and the solvency valuation of the excess of assets over liabilities is due to adjustments to the Statutory Accounts Value in order to value assets and liabilities at their solvency valuations and the subsequent impact on accumulated losses when performing these adjustments. The adjustments are documented in the section D covering valuation of material assets and liabilities per Article 296 of Delegated Regulation. The summary of taxed adjustments to the Statutory Accounts Value to give the solvency II value [S.02.01.01.C0010] are listed here:

ADJUSTMENT DESCRIPTION	AS AT 30 JUNE 2016 (£'000)
Net assets under IFRS	**178,484**
Adjustments for Technical Provisions under SII	4,298
Recognise Reinsurance Payable	(64,563)
Other SII Adjustments	(20)
Restrict Deferred Tax Asset	(15,071)
Excess of assets over liabilities [S.02.01.01.R1000.C0010]	**103,128**

Figure 3

E.1.6 Basic own-fund items subject to transitional arrangements

The tier 2 subordinated loan described in section E.1.2 is subject to the transitional arrangements.

The subordinated loan agreement consists of 4 tranches that were issued during the year to 30 June 2012 and is valued at £14,670k at the reporting date. The loan is repayable on 31 December 2020 and that is also the first and only call date. While the duration would ordinarily be insufficient to meet the requirements for classification as tier 2 basic own funds, the loan is eligible for transitional recognition.

The subordinated loan agreement was signed prior to 18 January 2015 and was recognised as lower tier 2 capital as at 31 December 2015 and therefore, per Article 4.2 of the Transitional Measures section of the Rulebook, the Company must include the item in tier 2 own funds for up to 10 years after 1 January 2016.

E.2 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

The Solvency Capital Requirement and Minimum Capital Requirement for the Company are set out in templates 25.01.01 (Solvency Capital Requirement – for undertakings on standard formula) and 28.01.01 (Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity) respectively. The template provides for a split by risk modules. The Company applies the standard formula, without modification for undertaking specific parameters, and has not used any simplifications allowed by the regulations. The final amounts remain subject to supervisory assessment. The Company has not received any imposed capital add-ons or imposed undertaking specific parameters.

Following the calculations specified in the regulations, the calculation of the Company's 'combined minimum capital requirement' is less than 0.25 times the Solvency Capital Requirement (SCR) and so the Minimum Capital Requirement (MCR) is equal to 0.25 times the SCR.

	30 June 2016
Market risk	£2,219k
Counterparty default risk	£7,876k
Health underwriting risk	£67,578k
Diversification	(£7,079k)
Operational risk	£12,174k
SCR	**£82,769k**
MCR	**£20,692k**

An analysis of the change in SCR and MCR over the reporting period has not been provided as the Company was not subject to the Solvency II regime in the prior period.

E.3 USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE IN THE CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT

Not applicable

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

Not applicable

E.5 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

The Company has complied continuously with both the Minimum Capital Requirement and Solvency Capital Requirement throughout the reporting period.

E.6 CAPITAL MANAGEMENT – ANY OTHER INFORMATION

Not applicable

F ADDITIONAL VOLUNTARY INFORMATION

F.1 TRANSITIONAL INFORMATION

Under Article 314(1b) of the Delegated Regulation a transitional information requirement is required whereby a qualitative analysis between the Solvency II regime and the old solvency regime is performed. The Company is not required to perform day one reporting, as it has a year-end date of 30 June. As at 1 July 2015 there were a number of material differences between the Solvency I regime and the Solvency II regime. These are discussed below and fall under the following areas: technical provisions, prepayments and deferred acquisition costs, financial liabilities and deferred tax. All other material assets and liabilities in the Solvency II balance sheet are treated the same and valued in the same way under the previous regime and the current regime at the opening balance sheet date.

The IFRS technical provisions are removed and replaced with the technical provisions as calculated under a Solvency II basis, which is covered in the above ‘Valuation’ section for those liabilities in line [S.02.01.02.R0580.C0010] and [S.02.01.02.R0590.C0010]. This includes the removal of the unearned premium reserve, claims handling provision and claims outstanding provision. This is somewhat offset by adjusting for any unearned premiums in premium outstanding, leaving just the premium receivable at that time for premiums due from quarterly and monthly paying policyholders. The IFRS calculated claims reserves and unearned premium are effectively replaced by the Solvency II valuation of gross CTP and PTP respectively. The Solvency II risk margin is also applied.

Prepayments which form part of ‘receivables (trade, not insurance)’ in [S.02.01.02.R0380.C0010] and ‘deferred acquisition costs’ in [S.02.01.02.R0020.C0010] are available under Solvency I but under Solvency II are restricted by Article 75 of the Directive. As there is no available market for the deferred acquisition costs and the majority of prepayments – these are removed from their respective asset classes in the Solvency II balance sheet.

Reinsurance based financing, detailed in section A.4.1.2, was recognised under Solvency I using insurance accounting under IFRS 4 Insurance Contracts. This is valued as a financial liability in line reinsurance payables [S.02.01.02.R0830.C0010] under Solvency II due to the reinsurance being financing in nature.

Finally deferred tax [S.02.01.02.R0040.C0010] is not available under Solvency I at the value recorded in the financial statements, however is available under Solvency II and falls under tier 3 basic own funds. The available deferred tax asset under Solvency II is restricted to the value that has been recognised in the financial statements if, following taxed Solvency II adjustments of other balances, the deferred tax asset increases. The deferred tax asset is then further reduced by the eligibility limits on available own funds explained in detail in section E.1.3 and E.1.4.

F.2 OTHER ADDITIONAL VOLUNTARY INFORMATION

The Company has no other voluntary material information to disclose.

G TEMPLATES

The templates are provided as an appendix to this document, following section H. The Company is required to disclose the following templates as set out in the Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council.

TEMPLATE CODE	TEMPLATE NAME
S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses
S.05.02.02	Premiums, claims and expenses by country
S.17.01.02	Non-life technical provisions
S.19.01.21	Non-life insurance claims
S.23.01.01	Own funds
S.25.01.21	Solvency Capital Requirement – for undertakings on Standard Formula
S.28.01.01	Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

H APPROVAL BY THE ADMINISTRATIVE, MANAGEMENT OR SUPERVISORY BODY (AMSB) OF THE SFCR AND REPORTING TEMPLATES

Vitality Health Limited

Approval by the Board of Directors of the Solvency and Financial Condition Report

Financial period ended 30 June 2016

We certify that:

1. the Solvency and Financial Condition Report ("SFCR") has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and

2. we are satisfied that:

   a. throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the insurer; and
   b. it is reasonable to believe that, at the date of the publication of the SFCR, the insurer has continued so to comply, and will continue so to comply in future.

Neville Stanley Koopowitz
Director and Chief Executive Officer
Date: 16 November 2016

General information

Undertaking name	Vitality Health Limited
Undertaking identification code	213800D5I9HUP34WJ971
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	30 June 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02
Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	14,366
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	130,126
R0080	*Property (other than for own use)*	
R0090	*Holdings in related undertakings, including participations*	
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	10,782
R0140	*Government Bonds*	880
R0150	*Corporate Bonds*	9,902
R0160	*Structured notes*	
R0170	*Collateralised securities*	
R0180	*Collective Investments Undertakings*	106,040
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	13,304
R0210	*Other investments*	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	-4,052
R0280	*Non-life and health similar to non-life*	-4,052
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	-4,052
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	26,041
R0370	Reinsurance receivables	822
R0380	Receivables (trade, not insurance)	926
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	81,108
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	249,339

S.02.01.02
Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	40,807
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	*Technical provisions - health (similar to non-life)*	40,807
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	35,013
R0590	*Risk margin*	5,794
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	7,327
R0830	Reinsurance payables	58,693
R0840	Payables (trade, not insurance)	24,714
R0850	Subordinated liabilities	14,670
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	14,670
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	146,211
R1000	**Excess of assets over liabilities**	103,128

S.05.01.02
Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)					
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance
		C0010	C0020	C0030	C0040	C0050	C0060
	Premiums written						
R0110	*Gross - Direct Business*	407,912					
R0120	*Gross - Proportional reinsurance accepted*						
R0130	*Gross - Non-proportional reinsurance accepted*						
R0140	*Reinsurers' share*	109,537					
R0200	*Net*	298,375					
	Premiums earned						
R0210	*Gross - Direct Business*	398,321					
R0220	*Gross - Proportional reinsurance accepted*						
R0230	*Gross - Non-proportional reinsurance accepted*						
R0240	*Reinsurers' share*	94,563					
R0300	*Net*	303,758					
	Claims incurred						
R0310	*Gross - Direct Business*	278,457					
R0320	*Gross - Proportional reinsurance accepted*						
R0330	*Gross - Non-proportional reinsurance accepted*						
R0340	*Reinsurers' share*	82,650					
R0400	*Net*	195,807					
	Changes in other technical provisions						
R0410	*Gross - Direct Business*						
R0420	*Gross - Proportional reinsurance accepted*						
R0430	*Gross - Non-proportional reinsurance accepted*						
R0440	*Reinsurers' share*						
R0500	*Net*	0					
R0550	**Expenses incurred**	102,956					
R1200	**Other expenses**						
R1300	**Total expenses**						

S.05.01.02
Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)					
		Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss
		C0070	C0080	C0090	C0100	C0110	C0120
	Premiums written						
R0110	*Gross - Direct Business*						
R0120	*Gross - Proportional reinsurance accepted*						
R0130	*Gross - Non-proportional reinsurance accepted*						
R0140	*Reinsurers' share*						
R0200	*Net*						
	Premiums earned						
R0210	*Gross - Direct Business*						
R0220	*Gross - Proportional reinsurance accepted*						
R0230	*Gross - Non-proportional reinsurance accepted*						
R0240	*Reinsurers' share*						
R0300	*Net*						
	Claims incurred						
R0310	*Gross - Direct Business*						
R0320	*Gross - Proportional reinsurance accepted*						
R0330	*Gross - Non-proportional reinsurance accepted*						
R0340	*Reinsurers' share*						
R0400	*Net*						
	Changes in other technical provisions						
R0410	*Gross - Direct Business*						
R0420	*Gross - Proportional reinsurance accepted*						
R0430	*Gross - Non-proportional reinsurance accepted*						
R0440	*Reinsurers' share*						
R0500	*Net*						
R0550	**Expenses incurred**						
R1200	**Other expenses**						
R1300	**Total expenses**						

S.05.01.02
Premiums, claims and expenses by line of business

Non-life

		Line of business for: accepted non-proportional reinsurance				Total
		Health	Casualty	Marine, aviation and transport	Property	
		C0130	C0140	C0150	C0160	C0200
	Premiums written					
R0110	*Gross - Direct Business*					407,912
R0120	*Gross - Proportional reinsurance accepted*					0
R0130	*Gross - Non-proportional reinsurance accepted*					0
R0140	*Reinsurers' share*					109,537
R0200	*Net*					298,375
	Premiums earned					
R0210	*Gross - Direct Business*					398,321
R0220	*Gross - Proportional reinsurance accepted*					0
R0230	*Gross - Non-proportional reinsurance accepted*					0
R0240	*Reinsurers' share*					94,563
R0300	*Net*					303,758
	Claims incurred					
R0310	*Gross - Direct Business*					278,457
R0320	*Gross - Proportional reinsurance accepted*					0
R0330	*Gross - Non-proportional reinsurance accepted*					0
R0340	*Reinsurers' share*					82,650
R0400	*Net*					195,807
	Changes in other technical provisions					
R0410	*Gross - Direct Business*					0
R0420	*Gross - Proportional reinsurance accepted*					0
R0430	*Gross - Non-proportional reinsurance accepted*					0
R0440	*Reinsurers' share*					0
R0500	*Net*					0
R0550	**Expenses incurred**					102,956
R1200	**Other expenses**					
R1300	**Total expenses**					102,956

S.05.02.01
Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations		
R0010					
		C0080	C0090	C0100	C0110
	Premiums written				
R0110	*Gross - Direct Business*	407,912			
R0120	*Gross - Proportional reinsurance accepted*	0			
R0130	*Gross - Non-proportional reinsurance accepted*	0			
R0140	*Reinsurers' share*	109,537			
R0200	*Net*	298,375	0	0	0
	Premiums earned				
R0210	*Gross - Direct Business*	398,321			
R0220	*Gross - Proportional reinsurance accepted*	0			
R0230	*Gross - Non-proportional reinsurance accepted*	0			
R0240	*Reinsurers' share*	94,563			
R0300	*Net*	303,758	0	0	0
	Claims incurred				
R0310	*Gross - Direct Business*	278,457			
R0320	*Gross - Proportional reinsurance accepted*	0			
R0330	*Gross - Non-proportional reinsurance accepted*	0			
R0340	*Reinsurers' share*	82,650			
R0400	*Net*	195,807	0	0	0
	Changes in other technical provisions				
R0410	*Gross - Direct Business*	0			
R0420	*Gross - Proportional reinsurance accepted*	0			
R0430	*Gross - Non-proportional reinsurance accepted*	0			
R0440	*Reinsurers' share*	0			
R0500	*Net*	0	0	0	0
R0550	**Expenses incurred**	102,956			
R1200	**Other expenses**				
R1300	**Total expenses**				

S.05.02.01
Premiums, claims and expenses by country

Non-life

		C0050	C0060	C0070
		Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010				
		C0120	C0130	C0140
	Premiums written			
R0110	*Gross - Direct Business*			407,912
R0120	*Gross - Proportional reinsurance accepted*			0
R0130	*Gross - Non-proportional reinsurance accepted*			0
R0140	*Reinsurers' share*			109,537
R0200	*Net*	0	0	298,375
	Premiums earned			
R0210	*Gross - Direct Business*			398,321
R0220	*Gross - Proportional reinsurance accepted*			0
R0230	*Gross - Non-proportional reinsurance accepted*			0
R0240	*Reinsurers' share*			94,563
R0300	*Net*	0	0	303,758
	Claims incurred			
R0310	*Gross - Direct Business*			278,457
R0320	*Gross - Proportional reinsurance accepted*			0
R0330	*Gross - Non-proportional reinsurance accepted*			0
R0340	*Reinsurers' share*			82,650
R0400	*Net*	0	0	195,807
	Changes in other technical provisions			
R0410	*Gross - Direct Business*			0
R0420	*Gross - Proportional reinsurance accepted*			0
R0430	*Gross - Non-proportional reinsurance accepted*			0
R0440	*Reinsurers' share*			0
R0500	*Net*	0	0	0
R0550	**Expenses incurred**			102,956
R1200	**Other expenses**			
R1300	**Total expenses**			102,956

S.17.01.02
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance				Direct business and accepted proportional reinsurance			
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090
R0010	**Technical provisions calculated as a whole**	0							
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole								
	Technical provisions calculated as a sum of BE and RM								
	Best estimate								
	Premium provisions								
R0060	Gross	-9,155							
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-16,780							
R0150	**Net Best Estimate of Premium Provisions**	7,626							
	Claims provisions								
R0160	Gross	44,168							
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	12,728							
R0250	**Net Best Estimate of Claims Provisions**	31,440							
R0260	**Total best estimate - gross**	35,013							
R0270	**Total best estimate - net**	39,066							
R0280	**Risk margin**	5,794							
	Amount of the transitional on Technical Provisions								
R0290	Technical Provisions calculated as a whole								
R0300	Best estimate								
R0310	Risk margin								
R0320	**Technical provisions - total**	40,807							
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	-4,052							
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	44,860							

S.17.01.02
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance				Accepted non-proportional reinsurance				
		Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**									0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole									0
	Technical provisions calculated as a sum of BE and RM									
	Best estimate									
	Premium provisions									
R0060	Gross									-9,155
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default									-16,780
R0150	**Net Best Estimate of Premium Provisions**									7,626
	Claims provisions									
R0160	Gross									44,168
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default									12,728
R0250	**Net Best Estimate of Claims Provisions**									31,440
R0260	**Total best estimate - gross**									35,013
R0270	**Total best estimate - net**									39,066
R0280	**Risk margin**									5,794
	Amount of the transitional on Technical Provisions									
R0290	Technical Provisions calculated as a whole									0
R0300	Best estimate									0
R0310	Risk margin									0
R0320	**Technical provisions - total**									40,807
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**									-4,052
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**									44,860

S.19.01.21
Non-Life insurance claims

Total Non-life business

Z0010 **Accident year / underwriting year** | Accident Year

Gross Claims Paid (non-cumulative)
(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	**Development year**											**In Current year**	**Sum of years (cumulative)**
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											0	0	0
R0160	N-9	0	0	0	0	0	0	0	0	0	0		0	0
R0170	N-8	0	0	0	0	11	0	0	0	0			0	11
R0180	N-7	0	0	0	29	2	0	0	0				0	31
R0190	N-6	0	0	81	37	7	0	0					0	125
R0200	N-5	0	453	106	34	10	0						0	604
R0210	N-4	88,096	635	81	19	506							506	89,338
R0220	N-3	102,049	501	82	7								7	102,639
R0230	N-2	132,818	920	83									83	133,821
R0240	N-1	225,341	2,264										2,264	227,605
R0250	N	233,183											233,183	233,183
R0260												**Tota**	236,043	787,356

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	**Development year**											**Year end (discounted data)**
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											0	0
R0160	N-9	0	0	0	0	0	0	0	0	0	0		0
R0170	N-8	0	0	0	0	0	0	0	0	0			0
R0180	N-7	0	0	0	1	0	0	0	0				0
R0190	N-6	0	0	26	6	0	0	0					0
R0200	N-5	0	3	42	3	0	0						0
R0210	N-4	10,933	275	31	0	2,594							2,562
R0220	N-3	11,953	179	19	0								0
R0230	N-2	17,216	210	16									16
R0240	N-1	50,754	475										474
R0250	N	40,573											40,517
R0260												**Total**	43,569

S.23.01.01
Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	3,926	3,926		0	
R0030	Share premium account related to ordinary share capital	388,625	388,625		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-303,789	-303,789			
R0140	Subordinated liabilities	14,670		0	14,670	0
R0160	An amount equal to the value of net deferred tax assets	14,366				14,366
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0				
R0290	**Total basic own funds after deductions**	117,797	88,761	0	14,670	14,366
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	117,797	88,761	0	14,670	14,366
R0510	Total available own funds to meet the MCR	103,431	88,761	0	14,670	
R0540	Total eligible own funds to meet the SCR	115,846	88,761	0	14,670	12,415
R0550	Total eligible own funds to meet the MCR	92,900	88,761	0	4,138	
R0580	**SCR**	82,769				
R0600	**MCR**	20,692				
R0620	**Ratio of Eligible own funds to SCR**	139.96%				
R0640	**Ratio of Eligible own funds to MCR**	448.96%				

S.23.01.01
Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35		**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	C0020	C0030	C0040	C0050
	Reconcilliation reserve	C0060				
R0700	Excess of assets over liabilities	103,128				
R0710	Own shares (held directly and indirectly)	0			INTENTIONALLY BLANK	
R0720	Foreseeable dividends, distributions and charges					
R0730	Other basic own fund items	406,916				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0				
R0760	**Reconciliation reserve**	-303,789				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business					
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	27,010				
R0790	**Total Expected profits included in future premiums (EPIFP)**	27,010				

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	2,219		
R0020	Counterparty default risk	7,876		
R0030	Life underwriting risk			
R0040	Health underwriting risk	67,578		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-7,079		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	70,595		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	12,174
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	82,769
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	82,769

	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	

S.28.01.01
Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCR_{NL} Result	15,860

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	39,066	298,375
R0030	Income protection insurance and proportional reinsurance	0	
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	0	
R0060	Other motor insurance and proportional reinsurance	0	
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	
R0080	Fire and other damage to property insurance and proportional reinsurance	0	
R0090	General liability insurance and proportional reinsurance	0	
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	15,860
R0310	SCR	82,769
R0320	MCR cap	37,246
R0330	MCR floor	20,692
R0340	Combined MCR	20,692
R0350	Absolute floor of the MCR	1,796
R0400	**Minimum Capital Requirement**	20,692